



ANNUAL REPORT

For Fiscal Year Ended March 31, 2019

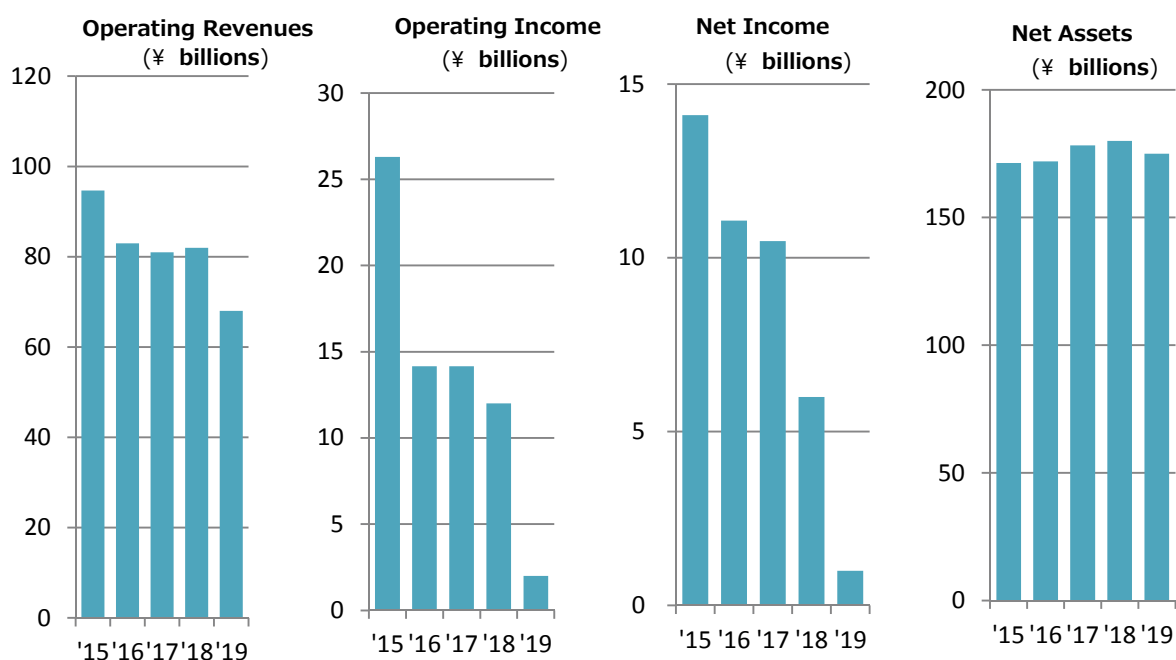
OKASAN SECURITIES GROUP INC.

Consolidated Financial Highlights

Okasan Securities Group Inc. and consolidated Subsidiaries Years ended March 31, 2019

	Millions of yen		Thousands of U.S.dollars ^(note)
	2019 (4/1/18~3/31/19)	2018 (4/1/17~3/31/18)	2019 (4/1/18~3/31/19)
Operating revenues	¥67,876	¥81,921	\$ 611,551
Operating income	1,840	11,720	16,578
Net income	853	5,853	7,685
Total assets	425,700	475,163	3,835,480
Net assets	175,184	180,049	1,578,376
Per share of common stock	Yen		U.S.dollars ^(note)
Basic net income	¥ 4.30	¥ 29.56	\$ 0.04
Cash dividends applicable to the year	15.00	25.00	0.14

Note: The translation of the yen amount into U.S. dollars is included solely for the convenience of the reader, using the prevailing exchange rate at March 29, 2019, which was ¥110.99 to U.S.\$1.



Management Policy

Okasan Securities Group Inc. and Consolidated Subsidiaries

1. Basic management policy for the Company

Okasan Securities Group Inc. manages a corporate group composed of a holding company and its Japanese and overseas consolidated subsidiaries. The Group strives to strengthen its enterprise value in a sustained manner through the provision of investment services centered on the securities business and asset management.

2. Basic policy on the distribution of profits and dividends

The Group sees shareholder returns as an important gauge of management success and intend to distribute payouts in consideration of the earnings trends in tandem with the sustainability of stable dividends.

3. Important management indicator

It is important to generate stable profits irrespective of the market conditions. In keeping with this principle, the Group maintains a stable, consolidated return on equity (ROE) of 10% as a long-term business objective.

4. Management strategies, etc.

The Okasan Securities Group will mark the centennial of its founding in April 2023. With this milestone in mind, the Group has formulated a grand design toward establishing a structure that will ensure continuing growth while winning and retaining the trust of its customers beyond the centennial. The “BEYOND 2020” medium-term management plan addresses the first three-year period of this vision, the period from April 2017 through March 2020. During this time, the Group will invest strategically to give the Group the strength needed to achieve these objectives.

The fiscal year under review is the second of the medium-term management plan. During this fiscal year, in addition to establishing Okasan Capital Partners and launching investments in startups, the Group enhanced alliances with external companies, expanding its exchange-traded margin transaction agencies and strengthening alliances with overseas securities firms for investment information, such as international market and corporate information, at each securities subsidiary. The Group also moved forward with the utilization of FinTech in providing customers with products and services, including the launch of AI-driven provision of investment information and advising. The Group will continue to enhance its strengths, thereby increasing corporate value.

BEYOND 2020: The new medium-term management plan

1. Period covered

The three-year period from April 2017 through March 2020

2. Management philosophy

“Customer-First”

3. Social mission:

[Statements to stakeholders]

(1) Customers

We seek to be a group of investment advising professionals focusing on advancing the best interests of our customers.

(2) Employees

We seek to be a company in which employees can take even greater pride to make the work of our employees as rewarding as possible.

(3) Shareholders

We strive to increase corporate value to meet the expectations of our shareholders.

4. Qualitative targets:

[Six measures to strengthen the Group]

(1) Customer-First management

(2) Cooperation within the Group

(3) Partnerships outside the Group

(4) Brand strategy

(5) Human resources, rewarding work

(6) FinTech

[Quantitative target]

ROE of 10%: While growing the Group, we plan to achieve a ROE of 10% as a stable, long-term target.

5. Marking the centennial of the Group's founding

Leading up to the Group's centennial, our goal, to be achieved at the earliest possible date, is to achieve the targets of one million accounts and ten trillion yen in assets managed across the entire Group.

5. Business conditions and challenges the Company should address

A bird's eye view of the business environment in which the Group operates suggests major changes are underway in various spheres, including a new cold war between the United States and China, involving the struggle for technological hegemony, and a fourth industrial revolution led by advances in artificial intelligence (AI). Even the business models of Google, Apple, Facebook, and Amazon, companies that have driven the economy in recent years, are being reconsidered.

Although a look at financial assets held by individuals in Japan shows a gradual trend toward investments, cash and deposits still continue to account for the majority of personal financial assets. Among seniors, the Japan and the US differ by a factor of three to four in average financial assets held per household. In the US, equities and investment trusts account for high proportions of personal financial assets; the asset-building gap between the US and Japan remains considerable. However, this long-standing pattern has begun to shift. With the approach of an era in which it may become commonplace to live to the age of 100, people have begun to recognize the importance of extending asset

lifespans, prompting systemic preparations through NISA, iDeCo, and other instruments. We expect a growth of investments in risk assets as well as increased financial assets and the broadening of the investor base. The securities business in Japan presents very high growth potential. We believe we have a significant role to play here. Amid this growth, innovations in products and technologies are likely to accelerate. Developing business models that go beyond extending the current trajectories will become critical.

The Group is striving to increase added value by adding new business creation to efforts to strengthen existing businesses. During the fiscal year under review, we prepared a structure to move ahead with various measures, establishing a wide range of projects targeting sustained growth for the entire Group. We see both strengthening coordination within the Group and expanding alliances outside the Group as important elements of Group growth. Drawing on the Group's various resources, including products, information, human resources, and information technologies, we intend to maximize Group synergies.

To meet the needs of our customers in the areas of asset building, investment management, and asset management as a team of investment-advising professionals, we intend to further intensify an approach based on the "customer first" management philosophy, a philosophy in place since our founding. As we look forward to our 2023 centennial and beyond, we seek to achieve sustained growth based on the trust of our customers.

6. Outline of corporate governance structure

(1) Basic concepts regarding corporate governance

To remain a company that retains society's trust, we have positioned corporate governance as a key management issue. By securing the rights and equality of shareholders, making the right decisions in a timely manner, and putting together the structures for business execution and appropriate management supervision and monitoring, we will fulfill our fiduciary duties and accountability to shareholders and forge cordial relationships with stakeholders.

(2) Structure of business execution

Regarding the structure of business execution, the Board of Directors as the supreme decision-making organ on management makes decisions on items provided in laws and regulations and the articles of incorporation and maps out plans for the management strategy of the Group and supervises them. The President - CEO executes decisions of the Board of Directors and supervises overall management. The Board of Directors consists of nine directors (including four directors who are Audit & Supervisory Committee members), which enables it to make quick decisions.

We also have set up the Management Conference. To strengthen the business management of the Group by clarifying the roles of both bodies, the Board of Directors makes management decisions and supervises management while the Management Conference is in charge of business execution. The Management Conference, according to the basic management policies adopted by the Board of Directors, deliberates on the laying out of specific policies, business execution plans, and other important managerial subjects.

(3) Management monitoring structure

The structure of management monitoring is composed of four total Audit & Supervisory Committee Members, including one statutory auditor and three outside directors. They make up the Audit & Supervisory Committee and decide on auditing policies in accordance with laws and regulations and the company's articles of incorporation, based on the rules of Audit & Supervisory Committee Members. They will also work to formulate audit opinions for the Audit & Supervisory Committee Members. Other member obligations include attendance at meetings of the Board of Directors and other important meetings, interviews with directors (excluding directors who are Audit & Supervisory Committee Members), and the duty to review important approval documents in order to oversee decision-making by the Board of Directors and the state of business execution by directors. In addition, Audit & Supervisory

Committee Members work with independent auditors and the divisions in charge of internal auditing to help ensure effective, appropriate audits. Okasan Securities Group Inc. has entered into agreements with these five Audit & Supervisory Committee Members to curtail their liabilities under Article 423, Paragraph 1 of the Companies Act, in accordance with Article 427, Paragraph 1 of the Act, to the minimum level required under laws and regulations.

(4) Internal auditing structure

As part of efforts to contribute to securing appropriate business operations such as reducing management risks and preventing wrongdoings, we have set up the Group Internal Audit Dept. and assigned nine staff to this department. The Group Internal Audit Dept. makes up an audit plan in each fiscal year, periodically implements on-the-spot audits based on these plans, and inspects documents when necessary. The results of the audits are presented regularly to the Board of Directors in the form of an audit report.

Operating and Financial Review

Okasan Securities Group Inc. and Consolidated Subsidiaries Years ended March 31, 2019

I . Financial conditions and operating results

Although Japan's economy continued to expand during the consolidated fiscal year under review, signs of slowing emerged in the second half. While conditions in the labor market continued to improve, concerns about a global economic slowdown and a series of natural disasters weighted heavily on consumer confidence. Personal consumption remained slow throughout the year, while year-on-year inflation in consumer prices continued to trend around 1%. US-China trade frictions and the effects of the slowing economy in China affected Japan's exports and production. Bright signs included the first increase in nationwide benchmark land values in 27 years, spurred by factors including demand for hotel construction in response to growing numbers of visitors to Japan.

With mixed domestic economic indicators and the economy continuing to lack strength, the Bank of Japan maintained its policy of monetary easing. In its July meeting, the BoJ's Monetary Policy Meeting chose to permit a broader range of fluctuations in the 10-year government bond yield, resulting in a brief rise in that yield to 0.155%; toward the end of the fiscal year, the bond yield once again fell into negative territory. Over the course of the fiscal year, it trended near the BoJ's monetary operation target of around 0%.

The 225-issue Nikkei Stock Average began the fiscal year trending around 22,000-23,000 yen, then climbed to 24,448 yen in early October, its highest mark in 27 years. This was in response to various factors, including the rising value of the US dollar against the yen (which reached ¥114/\$1 due to positive US economic conditions in the summer and beyond) and policy expectations in the run-up to the election for the president of the Liberal Democratic Party of Japan. Equities markets in the US followed by those in other major economies dropped significantly from autumn, due largely to indications that the US Federal Reserve Board would continue to raise interest rates despite concerns about sustained US-China trade frictions and the potential for a slowing global economy. At one point toward the end of the calendar year, the Nikkei Stock Average dropped below 19,000. These swings in equities markets galvanized risk avoidance in foreign exchange markets, leading to rapid revaluation of the yen, which briefly reached levels of ¥104/\$1 and ¥118/€1 at the start of the year. From that point until the end of the fiscal year, prompted by signs of a halt in interest rate increases in the US and anticipated progress on US-China trade negotiations, equities markets in major economies gradually stabilized and even regained earlier levels. This was despite festering concerns about Brexit and deepening confusion in advance of the end-of-March deadline for negotiations. The Nikkei Stock Average promptly recovered to the ¥20,000 range; at the end of the fiscal year, it had climbed to ¥21,205.81. Corrections returned the overvalued yen to roughly ¥110.5-110.9/\$1 and ¥124.5/€1 by the end of the fiscal year.

Okasan Securities Co., Ltd., our core subsidiary, sought to deploy sales activities with strong roots in local communities, strengthening its sales capabilities through various initiatives, including opening new branches and relocating and renovating current locations. In response to market trends, it also updated how it provides investment information, including launching streaming video of investment seminars at its website. Okasan Online Securities Co., Ltd., the Group's specialist online brokerage, sought to grow its business foundations by improving customer services; it began providing AI-driven information services and distributing information on recommended issues to each customer based on trading data. Okasan Asset Management Co., Ltd. sought to improve investment performance by stressing economic analysis, corporate research, and other aspects; it also sought to strengthen engagement with and exercise of voting rights in companies in which it invests to help increase their corporate value. The company sought to increase assets under management by enhancing products that contribute to customer asset building, including establishing the world's first Yuan Sovereign Open based on the Bond Connect Scheme and proposing private placement investment trusts and discretionary investment contracts to institutional investors.

II. Financial standing

Total assets at the end of the consolidated fiscal year under review stood at ¥425,700 million, down ¥49,464 million from the end of the previous consolidated fiscal year. Total liabilities were ¥250,516 million, down ¥44,599 million from the end of the previous consolidated fiscal year, while net assets were down ¥4,865 million over the same period to ¥175,184 million.

1. Total assets

Total assets at the end of the consolidated fiscal year under review stood at ¥425,700 million, down ¥49,463 million from the end of the previous consolidated fiscal year. This was due mainly to decreases of ¥24,907 million in receivables on collateralized securities transactions, ¥19,048 million in receivables on margin transactions, and ¥18,523 million in trading assets, despite an increase of ¥11,379 million in cash and deposits.

2. Total liabilities

Total liabilities at the end of the consolidated fiscal year under review stood at ¥250,516 million, down ¥44,597 million from the end of the previous consolidated fiscal year. This was due mainly to decreases of ¥19,281 million in payables on collateralized securities transactions, ¥16,301 million in short-term borrowings, and ¥6,428 million in guarantee deposits received, despite an increase of ¥1,979 million in deposits received.

3. Net assets

Net assets at the end of the consolidated fiscal year under review stood at ¥175,184 million, down ¥4,865 million from the end of the previous consolidated fiscal year. This was due mainly to decreases of ¥4,058 million in retained earnings and ¥1,794 million in unrealized gain on available-for-sale securities, while non-controlling interests increased by ¥800 million.

III. Business results

Group operating revenues in the consolidated fiscal year under review were ¥67,876 million (82.9% of the figure for the previous year); net operating revenues were ¥66,804 million (82.7% of the figure for the previous year). SG&A expenses were ¥64,964 million (94.1% of the figure for the previous year); operating income was ¥1,840 million (15.7% of the figure for the previous year); and net income attributable to owners of the parent was ¥853 million (14.6% of the figure for the previous year).

1. Fees and commissions received

Fees and commissions received stood at ¥42,996 million (81.5% of the figure for the previous year). These can be broken down as follows:

(1) Brokerage commissions

Average daily trading volumes on the First Section of the Tokyo Stock Exchange (Japanese common shares) in the consolidated fiscal year under review were 1,849 million shares (80.1% of the figure for the previous year), while turnover was ¥3,051.2 billion (95.0% of the figure for the previous year). In this environment, equity brokerage commissions were ¥13,904 million (70.4% of the figure for the previous year). Bond brokerage commissions were ¥2 million (80.7% of the figure for the previous year). Other brokerage

commissions amounted to ¥408 million (100.3% of the figure for the previous year). Total brokerage commissions were ¥14,315 million (71.0% of the figure for the previous year).

(2) Underwriting fees, selling concessions, and commissions on solicitation for sales of financial instruments to specified investors and others

As for our equity underwriting efforts during the consolidated fiscal year under review, commissions increased thanks to factors including our role as lead underwriter and major transactions of newly listed stocks. Commissions fell year-on-year in bond underwriting efforts, although the value of underwriting increased due to our role as lead underwriter for several local government and corporate bond issuances and our role as underwriter for corporate bond issuances targeting individual investors.

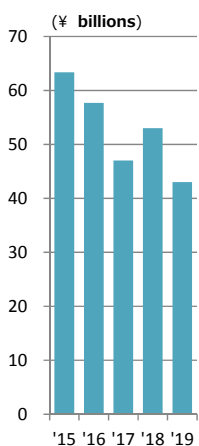
The resulting commissions on equity were ¥568 million (110.9% of the figure for the previous year). Commissions on bonds totaled ¥109 million (93.3% of the figure for the previous year). Total underwriting fees, selling concessions, and commissions on solicitation for sales of financial instruments to specified investors and others, related to both equity and bond transactions, amounted to ¥677 million (107.7% of the figure for the previous year).

(3) Administrative charges on offering, selling, and solicitation for sales of financial instruments to specified investors, and other fees and commissions received

Income related to investment trusts accounted for the bulk of our income from administrative charges on offering, selling, and solicitation for sales of financial instruments to specified investors, and other fees and commissions received.

During the consolidated fiscal year under review, amid spreading uncertainty in markets through the second half of the fiscal year, sales of public offerings of investment trusts showed increases in sales of products resistant to market instability, including funds reflecting awareness of dividends, interest, and other parameters and SME equity funds promising relatively high growth. Nevertheless, the impact of market conditions could not be avoided entirely. The value of sales fell year-on-year, and administrative charges on offering, selling, and solicitation for sales of financial instruments to specified investors totaled ¥11,776 million (80.3% of the figure for the previous year). Other fees and commissions received, related mainly to investment trusts, amounted to ¥16,227 million (93.7% of the figure for the previous year).

Fees and commissions received (¥ billions)	Fees and commissions received Breakdown by category		
	2019<A> (4/1/18~3/31/19)	2018 (4/1/17~3/31/18)	Ratio <A>/
	(Millions of yen except percentage)		
Brokerage commissions	¥14,315	¥20,163	71.0
Equities	13,904	19,753	70.4
Bonds	2	3	66.7
Others	408	407	100.2
Underwriting fees and selling concessions	677	629	107.6
Equities	568	512	110.9
Bonds	109	117	93.2
Placement commissions	11,776	14,672	80.3
Other commissions	16,227	17,313	93.7
Total	42,996	52,777	81.5



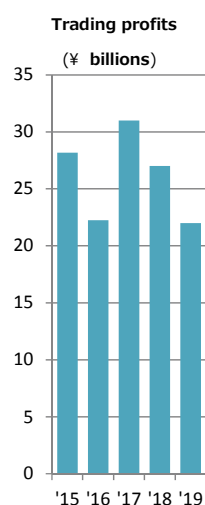
Breakdown by product	(Millions of yen except percentage)		
	2019<A> (4/1/18~3/31/19)	2018 (4/1/17~3/31/18)	Ratio <A>/
Equities	¥14,788	¥20,527	72.0
Bonds	259	247	104.9
Investment trusts	26,384	30,733	85.8
Others	1,565	1,270	123.2
Total	42,996	52,777	81.5

2.Trading profits

Profits on equity trading are earned mainly from domestic over-the-counter trading of foreign equities, particularly US stocks. Profits on bond trading arise mainly in conjunction with income from the handling of foreign bonds for customers.

Due to unstable market conditions emerging in the autumn, domestic over-the-counter trading of foreign equities fell year-on-year during the consolidated fiscal year under review. However, the value of sales of foreign bonds increased, thanks in part to our handling of social bonds.

Consequently, total profits on equity trading were ¥12,880 million (69.5% of the figure for the previous year). Total bond trading profits were ¥9,479 million (117.3% of the figure for the previous year). Total trading profits, including loss from other trading of ¥53 million (compared to a loss of ¥66 million in the previous year), were ¥22,306 million (84.0% of the figure for the previous year).



Trading profits	(Millions of yen except percentage)		
	2019<A> (4/1/18~3/31/19)	2018 (4/1/17~3/31/18)	Ratio <A>/
Equities	12,880	18,530	69.5
Bonds	9,479	8,078	117.3
Others	-53	-66	-
Total	22,306	26,541	84.0

3.Net financial income

Financial income amounted to ¥1,696 million (97.2% of the figure for the previous year). Financial expenses stood at ¥1,072 million (92.2%). Net financial income—i.e., the difference between financial income and financial expenses—was ¥624 million (107.1%).

4.Other operating income

Other operating income—i.e., operating income other than that related to the financial products transaction business and incidental operations—stood at ¥878 million (102.5% of the figure for the previous year).

5.Selling, general, and administrative expenses

Due to lower expenses, including personnel expenses and trading-related expenses, selling, general, and administrative expenses were ¥64,964 million (94.1% of the figure for the previous year).

6.Other income (expenses)

Other income amounted to ¥1,066 million.

7.Dividends

The company sees shareholder returns as a critical management issue. Its basic policy is to maintain a stable dividend while distributing profits in line with earnings.

Based on the policies above, the company set dividends for the fiscal year at ¥15 per share.

IV. Cash flows

Cash and cash equivalents at the end of the consolidated fiscal year was up ¥10,043 million from the end of the previous fiscal year to ¥64,183 million.

Presented below is information on each type of cash flow during the consolidated fiscal year under review and the underlying factors:

<Cash flows from operating activities>

Net cash provided by operating activities were ¥39,870 million. This is mainly attributable to the difference between cash inflows resulting from a change of ¥21,522 million decrease in trading assets and increase in trading liabilities and a change of ¥19,860 million decrease in receivables on margin transactions and increase payables on margin transactions and cash outflows from a change of ¥6,429 million decrease in guarantee deposits received.

<Cash flows from investing activities>

Net cash used in investment activities were ¥5,142 million, due mainly to the difference between cash outflows of ¥2,402 million payment for purchase of intangible assets, ¥1,000 million payment for short-term investments, ¥809 million payment for purchase of investment securities and cash inflows of ¥622 million proceeds from sale of investment securities.

<Cash flows from financing activities>

Net cash provided by financing activities were ¥24,880 million, due mainly to cash outflows resulting from decrease in short-term borrowings of ¥17,522 million, ¥4,912 million on dividends paid, and ¥2,260 million payments on long-term borrowings.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheet — March 31, 2019

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
ASSETS			
Current assets:			
Cash on hand and in banks (notes 10 and 22)	¥ 71,228	¥ 59,848	\$ 641,752
Cash segregated as deposits for customers and others	69,278	68,932	624,182
Trading assets (notes 4 and 10)	93,615	112,138	843,454
Receivables arising from unsettled trades	8,346	9,689	75,196
Receivables on margin transactions (note 5)	32,430	51,478	292,189
Receivables on collateralized securities transactions (note 6)	62,641	87,549	564,384
Short-term investments (note 7)	2,590	1,500	23,335
Other current assets	12,543	8,984	113,010
Allowance for doubtful accounts	(11)	(6)	(99)
Total current assets	352,660	400,112	3,177,403
Property and equipment, net of accumulated depreciation of ¥15,245 million (\$137,355 thousand) in 2019 and ¥14,658 million in 2018 (note 10)	18,927	19,470	170,529
Intangible assets, net	6,397	5,905	57,636
Investments and other assets:			
Investment securities (notes 7, 8 and 10)	40,242	42,648	362,573
Long-term guarantee deposits	3,838	3,824	34,580
Asset for retirement benefits (note 12)	1,371	1,434	12,352
Deferred income taxes (note 11)	1,324	854	11,929
Other	2,464	2,343	22,200
Allowance for doubtful accounts	(1,523)	(1,427)	(13,722)
Total investments and other assets	47,716	49,676	429,912
TOTAL	¥ 425,700	¥ 475,163	\$ 3,835,480

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Balance Sheet—(Continued) — March 31, 2019

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trading liabilities (note 4)	¥ 64,668	¥ 63,011	\$ 582,647
Payables on margin transactions (notes 5 and 10)	12,778	12,006	115,128
Payables on collateralized securities transactions (note 6)	92	19,373	829
Deposits received	39,464	37,484	355,564
Guarantee deposits received	30,078	36,507	270,997
Short-term borrowings (notes 9 and 10)	73,345	89,647	660,825
Income tax payables (note 11)	351	2,043	3,162
Other current liabilities (notes 9 and 13)	5,671	7,366	51,095
Total current liabilities	<u>226,447</u>	<u>267,437</u>	<u>2,040,247</u>
Non-current liabilities:			
Long-term borrowings (notes 9 and 10)	6,610	10,048	59,555
Lease liabilities (note 9)	835	877	7,523
Deferred income taxes (note 11)	4,973	5,020	44,806
Liability for retirement benefits (note 12)	6,556	6,489	59,068
Other non-current liabilities (note 13)	3,879	3,957	34,949
Total non-current liabilities	<u>22,853</u>	<u>26,391</u>	<u>205,901</u>
Financial instruments transactions reserve (note 14)	1,216	1,286	10,956
Total liabilities	<u>250,516</u>	<u>295,114</u>	<u>2,257,104</u>
Net assets			
Shareholders' equity (note 15):			
Common stock			
Authorized—750,000,000 shares:			
issued—208,214,969 shares in 2019 and 2018	18,590	18,590	167,492
Capital surplus	16,466	16,420	148,356
Retained earnings	109,166	113,225	983,566
Treasury stock, at cost, 9,967,021 shares in 2019 and 10,210,310 shares in 2018	(3,682)	(3,755)	(33,174)
Total shareholders' equity	<u>140,540</u>	<u>144,480</u>	<u>1,266,240</u>
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities (note 7)	9,833	11,627	88,593
Surplus on land revaluation (note 17)	401	401	3,613
Foreign currency translation adjustments	89	(70)	802
Remeasurements of defined benefit plans	109	275	982
Total accumulated other comprehensive income	<u>10,432</u>	<u>12,233</u>	<u>93,990</u>
Stock acquisition rights (note 16)	311	236	2,802
Non-controlling interests	23,901	23,100	215,344
Total net assets	<u>175,184</u>	<u>180,049</u>	<u>1,578,376</u>
Commitments and contingencies (note 23)			
TOTAL	<u>¥ 425,700</u>	<u>¥ 475,163</u>	<u>\$ 3,835,480</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Income – Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
Operating revenues:			
Commissions	¥ 42,996	¥ 52,777	\$ 387,386
Net gain on trading	22,306	26,541	200,973
Interest and dividend income	1,696	1,746	15,281
Service fee and other revenues	878	857	7,911
	<u>67,876</u>	<u>81,921</u>	<u>611,551</u>
Interest expense	<u>1,072</u>	<u>1,163</u>	<u>9,659</u>
Net operating revenues	<u>66,804</u>	<u>80,758</u>	<u>601,892</u>
Selling, general and administrative expenses (note18)	<u>64,964</u>	<u>69,038</u>	<u>585,314</u>
Operating income	<u>1,840</u>	<u>11,720</u>	<u>16,578</u>
Other income (expenses):			
Dividend income	978	927	8,812
Exchange gain	68	233	613
Gain on sale of investment securities	72	5,019	649
Equity in gain of affiliates	51	93	459
Interest expense	(53)	(56)	(478)
Loss on sale and disposal of property and equipment and intangible assets	(27)	(2,499)	(243)
Loss on sale of investment securities	(15)	(63)	(135)
Reversal of financial instruments transactions reserve	70	47	631
Impairment loss (note 19)	(122)	(4,823)	(1,099)
Gain on sale of property and equipment	-	3	-
Loss on devaluation of investment securities	-	(9)	-
Other, net	44	81	396
	<u>1,066</u>	<u>(1,047)</u>	<u>9,605</u>
Income before income taxes and non- controlling interests	<u>2,906</u>	<u>10,673</u>	<u>26,183</u>
Income taxes (note 11):			
Current	1,012	4,658	9,118
Deferred	281	(1,029)	2,532
	<u>1,293</u>	<u>3,629</u>	<u>11,650</u>
Net income	<u>1,613</u>	<u>7,044</u>	<u>14,533</u>
Net income attributable to non-controlling interests	<u>760</u>	<u>1,191</u>	<u>6,848</u>
Net income attributable to owners of the parent	<u>¥ 853</u>	<u>¥ 5,853</u>	<u>\$ 7,685</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income (Loss) — Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
	Net income	¥ 1,613	¥ 7,044
Other comprehensive income (loss) (note 20):			
Unrealized loss on available-for-sale securities	(1,682)	(506)	(15,155)
Foreign currency translation adjustments	159	(227)	1,433
Remeasurements of defined benefit plans	(160)	(25)	(1,442)
Share of other comprehensive gain (loss) of affiliates accounted for by equity method	(124)	332	(1,117)
Total other comprehensive loss	(1,807)	(426)	(16,281)
Comprehensive income (loss)	¥ (194)	¥ 6,618	\$ (1,748)
Comprehensive income attributable to:			
Owners of the parent	¥ (947)	¥ 4,834	\$ (8,532)
Non-controlling interests	753	1,784	6,784

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Changes in Net Assets — Year ended March 31, 2019

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balances at March 31, 2017	¥ 18,590	¥ 16,422	¥ 112,283	¥ (3,786)	¥ 143,509
Changes arising during the year:					
Cash dividends			(4,910)		(4,910)
Net income attributable to owners of the parent			5,853		5,853
Purchase of treasury stock				(22)	(22)
Disposition of treasury stock		2	(1)	53	54
Changes in equity resulting from transactions with non-controlling interests		(4)			(4)
Net changes other than shareholders' equity					
Total changes during the year	-	(2)	942	31	971
Balances at March 31, 2018	18,590	16,420	113,225	(3,755)	144,480
Changes arising during the year:					
Cash dividends			(4,912)		(4,912)
Net income attributable to owners of the parent			853		853
Purchase of treasury stock				(6)	(6)
Disposition of treasury stock		46	(0)	79	125
Net changes other than shareholders' equity					
Total changes during the year	-	46	(4,059)	73	(3,940)
Balances at March 31, 2019	¥ 18,590	¥ 16,466	¥ 109,166	¥ (3,682)	¥ 140,540

Millions of yen								
Accumulated other comprehensive income (loss)								
	Unrealized gain on available- for-sale securities	Surplus on land revaluation	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Non- controlling interests	Total net assets
Balances at March 31, 2017	¥ 12,382	¥ 401	¥ 157	¥ 311	¥ 13,251	¥ 162	¥ 21,335	¥ 178,257
Changes arising during the year:								
Cash dividends								(4,910)
Net income attributable to owners of the parent								5,853
Purchase of treasury stock								(22)
Disposition of treasury stock								54
Changes in equity resulting from transactions with non-controlling interests								(4)
Net changes other than shareholders' equity	(755)	-	(227)	(36)	(1,018)	74	1,765	821
Total changes during the year	(755)	-	(227)	(36)	(1,018)	74	1,765	1,792
Balances at March 31, 2018	11,627	401	(70)	275	12,233	236	23,100	180,049
Changes arising during the year:								
Cash dividends								(4,912)
Net income attributable to owners of the parent								853
Purchase of treasury stock								(6)
Disposition of treasury stock								125
Net changes other than shareholders' equity	(1,794)	-	159	(166)	(1,801)	75	801	(925)
Total changes during the year	(1,794)	-	159	(166)	(1,801)	75	801	(4,865)
Balances at March 31, 2019	¥ 9,833	¥ 401	¥ 89	¥ 109	¥ 10,432	¥ 311	¥ 23,901	¥ 175,184

Thousands of U.S. dollars (note 3)					
Shareholders' equity					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balances at March 31, 2018	\$ 167,492	\$ 147,941	\$ 1,020,137	\$ (33,832)	\$ 1,301,738
Changes arising during the year:					
Cash dividends			(44,256)		(44,256)
Net income attributable to owners of the parent			7,685		7,685
Purchase of treasury stock				(54)	(54)
Disposition of treasury stock		415	(0)	712	1,127
Net changes other than shareholders' equity					
Total changes during the year	<u>-</u>	<u>415</u>	<u>(36,571)</u>	<u>658</u>	<u>(35,498)</u>
Balances at March 31, 2019	<u>\$ 167,492</u>	<u>\$ 148,356</u>	<u>\$ 983,566</u>	<u>\$ (33,174)</u>	<u>\$ 1,266,240</u>

Thousands of U.S. dollars (note 3)								
Accumulated other comprehensive income (loss)								
	Unrealized gain on available- for-sale securities	Surplus on land revaluation	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Non- controlling interests	Total net assets
Balances at March 31, 2018	\$ 104,757	\$ 3,613	\$ (631)	\$ 2,478	\$ 110,217	\$ 2,126	\$ 208,127	\$ 1,622,208
Changes arising during the year:								
Cash dividends								(44,256)
Net income attributable to owners of the parent								7,685
Purchase of treasury stock								(54)
Disposition of treasury stock								1,127
Net changes other than shareholders' equity	<u>(16,164)</u>	<u>-</u>	<u>1,433</u>	<u>(1,496)</u>	<u>(16,227)</u>	<u>676</u>	<u>7,217</u>	<u>(8,334)</u>
Total changes during the year	<u>(16,164)</u>	<u>-</u>	<u>1,433</u>	<u>(1,496)</u>	<u>(16,227)</u>	<u>676</u>	<u>7,217</u>	<u>(43,832)</u>
Balances at March 31, 2019	<u>\$ 88,593</u>	<u>\$ 3,613</u>	<u>\$ 802</u>	<u>\$ 982</u>	<u>\$ 93,990</u>	<u>\$ 2,802</u>	<u>\$ 215,344</u>	<u>\$ 1,578,376</u>

See accompanying notes to consolidated financial statements.

Okasan Securities Group Inc. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows — Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (note 3)
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 2,906	¥ 10,673	\$ 26,183
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,098	3,609	27,912
Impairment loss	122	4,824	1,099
Interest and dividend income	(2,681)	(2,679)	(24,155)
Interest expense	1,125	1,219	10,136
Loss on disposal of intangible assets	0	2,457	0
Gain on sale of investment securities	(83)	(4,956)	(748)
Loss on devaluation of investment securities	-	9	-
Decrease (increase) in deposits segregated for customer	(150)	(3,500)	(1,351)
Decrease (increase) in trading assets and increase (decrease) in trading liabilities	21,523	(40,605)	193,918
Decrease (increase) in receivables on margin transactions and increase (decrease) in payables on margin transactions	19,860	(11,328)	178,935
Decrease (increase) in receivables on collateralized securities transactions and increase (decrease) in payables on collateralized securities transactions	5,627	26,687	50,698
Increase (decrease) in deposits received	1,833	3,411	16,515
Decrease (increase) in short-term guarantee deposits	(512)	(625)	(4,613)
Increase (decrease) in guarantee deposits received	(6,429)	1,315	(57,924)
Increase (decrease) in allowance for doubtful accounts	101	(12)	910
Decrease (increase) in assets for retirement benefits and increase (decrease) in liabilities for retirement benefits	131	(62)	1,180
Increase (decrease) in financial instruments transactions reserve	(70)	(47)	(631)
Other, net	(3,440)	994	(30,993)
Sub-total	42,961	(8,616)	387,071
Interest and dividend received	2,677	2,725	24,119
Interest paid	(1,127)	(1,144)	(10,154)
Income taxes paid	(4,641)	(5,842)	(41,815)
Net cash provided by (used in) operating activities	39,870	(12,877)	359,221
Cash flows from investing activities:			
Payment for short-term investments	(1,000)	(1,500)	(9,010)
Payment for purchase of property and equipment	(329)	(584)	(2,964)
Payment for purchase of intangible assets	(2,402)	(2,606)	(21,642)
Payment for purchase of investment securities	(809)	(280)	(7,289)
Proceeds from sale of investment securities	622	5,980	5,604
Other, net	(1,224)	(349)	(11,028)
Net cash provided by (used in) investing activities	(5,142)	661	(46,329)

Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(17,523)	20,507	(157,879)
Proceeds from long-term borrowings	-	1,000	-
Payments on long-term borrowings	(2,260)	(692)	(20,362)
Purchase of treasury stock	(6)	(22)	(54)
Proceeds from sale of parent's stock held by subsidiaries	283	56	2,550
Dividends paid	(4,912)	(4,910)	(44,256)
Dividends paid to non-controlling interests of subsidiaries	(32)	(31)	(289)
Other, net	(430)	(490)	(3,874)
Net cash provided by (used in) financing activities	<u>(24,880)</u>	<u>15,418</u>	<u>(224,164)</u>
Effect of exchange rate changes on cash and cash equivalents	196	(253)	1,766
Net increase (decrease) in cash and cash equivalents	<u>10,044</u>	<u>2,949</u>	<u>90,494</u>
Cash and cash equivalents, beginning of year	<u>54,140</u>	<u>51,191</u>	<u>487,792</u>
Cash and cash equivalents, end of year (note 22)	<u>¥ 64,184</u>	<u>¥ 54,140</u>	<u>\$ 578,286</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Okasan Securities Group Inc. and Consolidated Subsidiaries — Year ended March 31, 2019

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements include the accounts of Okasan Securities Group Inc. (the “Company”) and its subsidiaries.

The Company and its domestic subsidiaries maintain their books of account and prepare their financial statements in conformity with financial accounting standards of Japan, and its foreign subsidiary in conformity with those of the country of its domicile.

“Practical Solution on unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006) requires that for the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle, and financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively may be used for the consolidation process, however, the items listed in the PITF should be adjusted in the consolidation process so that net income is accounted for in accordance with Japan GAAP unless they are not material. The Company made necessary modification to the consolidated financial statements according to the PITF.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan and applicable to Japanese securities companies.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Consolidation**— The consolidated financial statements include the accounts of the Company and its 12 subsidiaries. Two affiliates are accounted for by equity method at March 31, 2019. The “Accounting Standards for Consolidation” require the control or influence concept for the consolidation scope of subsidiaries and affiliates. Under the control or influence concept, a company in which the Company or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations is fully consolidated, and a company over which the Company and/or its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method. Investments in affiliates are accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.
- b. **Cash and cash equivalents**— For the purposes of the statement of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.
- c. **Trading assets and liabilities**— Trading assets and liabilities, including securities and financial derivatives for trading purposes are recorded on a trade date basis at fair value. Revenues and expenses related to trading securities transactions are recorded on a trade

date basis. Changes in the fair values are reflected in “net gain on trading” in the accompanying consolidated statement of income. Gains and losses arose from derivatives held or issued for trading purposes are also reported as “net gain on trading” in the accompanying consolidated statement of income, which includes realized gains and losses as well as changes in the fair values of such instruments. Securities owned for non-trading purposes, shown in the accompanying consolidated balance sheet as “Short-term investments” and “Investment securities” are discussed below.

- d. **Securities**—The Company examines the intent of holding securities for non-trading purposes, and classifies those securities as (a) debt securities intended to be held to maturity (“held-to-maturity debt securities”), (b) equity securities issued by an affiliated company and (c) all other securities not classified in any of the above categories (“available-for-sale securities”).

Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with market value are stated at market, based on quoted market prices. Realized gains and losses on sale of such securities are computed using the gross-average cost. Unrealized gains or losses on such securities, net of related taxes, are recorded in other accumulated comprehensive income. Debt securities classified as “available-for-sale securities” for which fair value is not available are stated at the amortized cost. Equity securities classified as “available-for-sale securities” for which market value is not available are stated at the gross-average cost.

- e. **Hedging transactions**— The Company states derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes. Valuation gains or losses on hedging instruments are mainly deferred as assets or liabilities until the gains or losses on underlying hedged instruments are realized. The Company and certain subsidiaries have entered into interest rate swap agreements for hedging interest rate exposures. The difference in amounts to be paid or received on interest rate swap agreements is recognized over the life of the agreement as an adjustment to interest expense.

- f. **Collateralized securities transactions**— Collateralized securities transactions consist of securities borrowed and loaned transactions. Securities borrowed transactions generally require the Company to provide the counterparty with collateral in the form of cash. And securities loaned transactions, the Company generally receives collateral in the form of cash. The Company monitors the market value of the securities borrowed or loaned and requires additional cash, as necessary, to ensure that such transactions are adequately collateralized. Under the “Uniform Accounting Standards of Securities Companies”, securities borrowed and loaned transactions are accounted for as financing transactions. Securities borrowed or loaned that are cash collateralized are recorded at the amount of cash collateral advanced or received. Gensaki transactions originate in the Japanese financial markets, and involve the selling (“Borrowings on Gensaki transactions”)/purchasing (“Loans on Gensaki transactions”) of commercial paper, certificates of deposit, Japanese government bonds and various other debt securities to/from an institution wishing to make a short-term investment, with the Company agreeing to repurchase/resell them from/to the institution on a specified date at a specified price. Under the “Accounting Standards for Financial Instruments”, Gensaki transactions are accounted for as financing transactions. Gensaki transactions are carried at their contractual amounts.

- g. **Allowance for doubtful accounts**— Allowance for doubtful accounts of the Company and its domestic consolidated subsidiaries are provided on the estimated historical deterioration rate for normal accounts, and based on specifically assessed amounts for doubtful accounts. An overseas consolidated subsidiary provides specifically assessed amount for doubtful accounts.

- h. Property and equipment**— Property and equipment are stated at cost. Depreciation of property and equipment of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings purchased in Japan on or after April 1, 1998 and to leasehold improvements and structures purchased in Japan on or after April 1, 2016. And in an overseas subsidiary, depreciation is computed by the straight-line method.
The range of useful lives is principally from 3 to 50 years for buildings and from 3 to 15 years for equipment.
- i. Intangible assets**— Intangible assets are carried at cost less amortization. Software for internal use is amortized under straight-line method based on internally estimated useful life (5 years). Amortization of other intangible assets is calculated by the straight-line method at rates based on the estimated useful lives of respective assets.
- j. Retirement and severance benefits**— Liabilities for retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for the unrecognized actuarial gain or loss and unrecognized prior service benefit or cost. The retirement benefit obligation is attributed to each period by the benefit formula basis. Actuarial gain or loss is amortized in the subsequent year that it occurs by the straight-line method within the average remaining years of service of the employees of 5 years.

Certain domestic consolidated subsidiaries have unfunded defined benefit pension plans for directors and corporate auditors based on their internal rule. The provision for the plans has been made in the accompanying consolidated financial statements for vested benefits to which directors and corporate auditors are entitled if they were to retire and sever immediately at the balance sheet date.

- k. Leases**—Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value.
- l. Income taxes**—Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitant tax and business tax. The “Accounting Standards for Income Taxes” require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included on the financial statements or tax return. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary difference are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.
The Company has filed consolidated tax returns in Japan.
- m. Foreign currency transactions**— Under the “Accounting Standards for Foreign Currency Transactions,” receivables and payables denominated in foreign currencies are translated into yen at the rate of exchange at the balance sheet dates and gains or losses resulting from the translation of foreign currencies are credited or charged to income. Assets and liabilities, and revenues and expenses of an overseas subsidiary are translated into yen at the rate of exchange at the balance sheet dates, a comprehensive adjustment resulting from translation is presented as “Foreign currency translation adjustments” in a component of net assets.

n. **Asset retirement obligations**— The Company recognizes an asset retirement obligation which is a statutory or similar obligation with regard to the removal of assets as a liability. An asset retirement obligation is recognized as a liability at the time that the asset is incurred by its acquisition, construction, development or ordinary use. When an asset retirement obligation is recognized as a liability, the asset retirement cost corresponding to it is included in the cost of the relevant asset by the same amount.

o. **Accounting standards issued but not yet applied**

1. Accounting Standards for Revenue Recognition etc.

- Accounting Standards for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and published “Revenue from Contracts with Customers” in May 2014 (IFRS No. 15 in IASB, Topic 606 in FASB). Given that IFRS No. 15 will be applied from the fiscal year starting on or after January 1, 2018 and Topic 606 from the fiscal year starting after December 15, 2017, the Accounting Standards Board of Japan has developed comprehensive accounting standards for revenue recognition and published them together with implementation guidance.

The ASBJ basic policy in developing accounting standards for revenue recognition is thought to be setting accounting standards, with the incorporation of the basic principles of IFRS No. 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS No. 15, and to be adding alternative accounting treatments without losing comparability if there is an item that we should take into account in practices, etc. that have been conducted in Japan.

(2) Planned applicable date

The accounting standards are to be applied from the beginning of the year ending March 31, 2022.

(3) Impact of application on these accounting standards

The Company is currently evaluating the impact of application of these accounting standards to the consolidated financial statements.

2. Revised Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements

- Revised Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ Practical Issues Task Force (PITF) No. 18, September 14, 2018)
- Revised Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (PITF No. 24, September 14, 2018)

(1) Overview

The ASBJ has examined the revision of “Practical Solution on unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (PITF No. 18) and “Practical Solution on unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (PITF No. 24)

When foreign subsidiaries have chosen to recognize subsequent changes in the fair value of equity instruments in other comprehensive income in accordance with the practical solution on “Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements”, the differences between acquisition costs and sales prices should be recognized in income when the investments are sold for consolidated financial statements.

When the Company should be required to record impairment losses, valuation differences should be recorded as loss for the year.

(2) Planned applicable date

The accounting standards are to be applied from the beginning of the year ending March 31, 2020.

(3) Impact of application on these accounting standards

The Company is currently evaluating the impact of application of these accounting standards to the consolidated financial statements.

- p. **Reclassifications**— Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used in consolidated statements as of and for the year ended March 31, 2019.

3. BASIS OF FINANCIAL STATEMENT TRANSLATION

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 29, 2019, which was ¥110.99 to U.S. \$1. The convenience translations should not be construed as representations that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

4. TRADING ASSETS AND LIABILITIES

Trading assets and trading liabilities at March 31, 2019 and 2018 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trading assets:			
Securities and other	¥ 93,599	¥ 112,118	\$ 843,310
Derivatives	16	20	144
	<u>¥ 93,615</u>	<u>¥ 112,138</u>	<u>\$ 843,454</u>
Trading liabilities:			
Securities and other	¥ 64,661	¥ 62,961	\$ 582,584
Derivatives	7	50	63
	<u>¥ 64,668</u>	<u>¥ 63,011</u>	<u>\$ 582,647</u>

5. MARGIN TRANSACTIONS

Margin transactions at March 31, 2019 and 2018 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Assets:			
Loans receivable from customers	¥ 26,165	¥ 48,517	\$ 235,742
Cash deposits as collateral for securities borrowed from securities finance companies	6,265	2,961	56,447
	<u>¥ 32,430</u>	<u>¥ 51,478</u>	<u>\$ 292,189</u>
Liabilities:			
Borrowings from securities finance companies	¥ 3,161	¥ 6,503	\$ 28,480
Proceeds from securities sold for customers' accounts	9,617	5,503	86,648
	<u>¥ 12,778</u>	<u>¥ 12,006</u>	<u>\$ 115,128</u>

Loans receivable from customers are stated at amounts equal to the purchase price of the relevant securities, which are collateralized by customers' securities and customers' deposits in the form of cash or securities. Proceeds from securities sold for customers' accounts are stated at the sales prices of the relevant securities on the respective transaction dates.

6. COLLATERALIZED SECURITIES TRANSACTIONS

Collateralized securities transactions at March 31, 2019 and 2018 consist of the following:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
			2019
Assets:			
Cash collateral for securities borrowed	¥ 30	¥ 87,549	\$ 270
Loans on Gensaki transactions	62,611	-	564,114
	<u>62,641</u>	<u>87,549</u>	<u>564,384</u>
Liabilities:			
Cash collateral for securities loaned	¥ 92	¥ 19,373	\$ 829

7. SECURITIES FOR NON-TRADING PURPOSES

Balance sheet amount, fair value, gross unrealized gain and gross unrealized loss of held-to-maturity debt securities with fair value at March 31, 2019 and 2018 are summarized as follows:

	Millions of yen			
	Balance sheet	Gross unrealized gain	Gross unrealized loss	Fair value
At March 31, 2019				
Government, corporate and other bonds	¥ 41	¥ 3	¥ -	¥ 44
At March 31, 2018				
Government, corporate and other bonds	¥ 47	¥ 3	¥ -	¥ 50
	Thousands of U.S. dollars			
	Balance sheet	Gross unrealized gain	Gross unrealized loss	Fair value
At March 31, 2019				
Government, corporate and other bonds	\$ 369	\$ 27	\$ -	\$ 396

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of available-for-sale securities with fair value at March 31, 2019 and 2018 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet
At March 31, 2019				
Current:				
Government, corporate and other bonds	¥ -	¥ -	¥ -	¥ -
Other	2,600	10	(20)	2,590
	<u>¥ 2,600</u>	<u>¥ 10</u>	<u>¥ (20)</u>	<u>¥ 2,590</u>
Non-current:				
Equity securities	¥ 12,946	¥ 20,036	¥ (738)	¥ 32,244
Other	922	77	(37)	962
	<u>¥ 13,868</u>	<u>¥ 20,113</u>	<u>¥ (775)</u>	<u>¥ 33,206</u>
At March 31, 2018				
Current:				
Government, corporate and other bonds	¥ -	¥ -	¥ -	¥ -
Other	1,500	-	-	1,500
	<u>¥ 1,500</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥ 1,500</u>
Non-current:				
Equity securities	¥ 12,848	¥ 21,784	¥ (125)	¥ 34,507
Other	1,086	120	(66)	1,140
	<u>¥ 13,934</u>	<u>¥ 21,904</u>	<u>¥ (191)</u>	<u>¥ 35,647</u>
	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet
At March 31, 2019				
Current:				
Government, corporate and other bonds	\$ -	\$ -	\$ -	\$ -
Other	23,425	90	(180)	23,335
	<u>\$ 23,425</u>	<u>\$ 90</u>	<u>\$ (180)</u>	<u>\$ 23,335</u>
Non-current:				
Equity securities	\$ 116,641	\$ 180,521	\$ (6,649)	\$ 290,513
Other	8,307	694	(334)	8,667
	<u>\$ 124,948</u>	<u>\$ 181,215</u>	<u>\$ (6,983)</u>	<u>\$ 299,180</u>

Securities classified as available-for-sale securities for which fair value is not available are unlisted equity securities amounting to ¥6,669 million (\$60,086 thousand) and ¥6,748 million, and investments in limited partnership and similar partnership amounting to ¥325 million (\$2,928 thousand) and ¥205 million at March 31, 2019 and 2018, respectively.

For the years ended March 31, 2019 and 2018, proceeds from sales of available-for-sale securities, gross realized gains and gross realized losses are as follows:

	Millions of yen					
	Proceeds from sales of available-for-sale securities		Gross realized gains		Gross realized losses	
March 31, 2019						
Equity securities	¥	358	¥	30	¥	-
Government, corporate and other bonds		-		-		-
Other		264		1		15
	¥	622	¥	31	¥	15
March 31, 2018						
Equity securities	¥	5,036	¥	4,965	¥	0
Government, corporate and other bonds		-		-		-
Other		944		45		63
	¥	5,980	¥	5,010	¥	63

	Thousands of U.S. dollars					
	Proceeds from sales of available-for-sale securities		Gross realized gains		Gross realized losses	
March 31, 2019						
Equity securities	\$	3,225	\$	270	\$	-
Government, corporate and other bonds		-		-		-
Other		2,379		9		135
	\$	5,604	\$	279	\$	135

8. INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates at March 31, 2019 and 2018 are ¥5,174 million (\$46,617 thousand) and ¥5,287 million, respectively.

9. BORROWINGS

The weighted-average interest rates applicable to the short-term borrowings are 0.70 % and 0.56% at March 31, 2019 and 2018, respectively.

Long-term borrowings at March 31, 2019 and 2018 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Borrowings, maturing in installments through 2022; bearing weighted average interest of 1.79% at March 31, 2019	¥ 11,048	¥ -	\$ 99,540
Borrowings, maturing in installments through 2022; bearing weighted average interest of 2.01% at March 31, 2018	-	13,308	-
Less current installments	4,438	3,260	39,985
	¥ 6,610	¥ 10,048	\$ 59,555

Lease liabilities at March 31, 2019 and 2018 consist of the following:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
			2019
Lease liabilities maturing in installments through 2025; bearing weighted average interest of 3.11% at March 31, 2019	¥ 1,135	¥ -	\$ 10,226
Lease liabilities maturing in installments through 2023; bearing weighted average interest of 3.09% at March 31, 2018	-	1,268	-
Less current installments	300	391	2,703
	<u>¥ 835</u>	<u>¥ 877</u>	<u>\$ 7,523</u>

- (1) Current installments of long-term borrowings are included in short-term borrowings in the accompanying balance sheet.
- (2) Long-term borrowings included subordinated borrowings provided in Article 176 of the “Cabinet Office Ordinance Concerning Financial Instruments Business” (the Prime Minister’s Office Ordinance No. 52, 2007) as follows:

	Millions of Yen		Thousands of
	2019	2018	U.S. dollars
			2019
Long-term borrowings	¥ -	¥ 4,000	\$ -
Current installments of long-term borrowings	4,000	2,000	36,039

Annual maturities of borrowings after March 31, 2020, are as follows:

Year ending March 31	Millions of	Thousands of
	yen	U.S. dollars
2021	¥ 3,750	\$ 33,787
2022	2,660	23,966
2023	200	1,802
2024	-	-

Annual maturities of lease liabilities after March 31, 2020, are as follows:

Year ending March 31	Millions of	Thousands of
	yen	U.S. dollars
2021	¥ 264	\$ 2,379
2022	222	2,000
2023	180	1,622
2024	162	1,460

To meet its liquidity needs stably and expeditiously and to strengthen financial operations, Okasan Securities Co., Ltd. (a subsidiary of the Company) established a commitment line of ¥21,000 million (\$189,206 thousand) with 6 financial institutions at March 31, 2019 and ¥21,000 million with 7 financial institutions 2018.

As is customary in Japan, both short-term and long-term bank borrowings are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right to offset cash deposits against obligations that have become due or, in the event of default, against all obligations due the bank.

10. PLEDGED ASSETS

At March 31, 2019 and 2018, the carrying value of assets pledged is as follows:

	Millions of Yen		Thousands of U.S. dollars
	2019	2018	2019
Cash in banks	¥ 1,910	¥ 1,827	\$ 17,209
Trading assets	7,451	13,436	67,132
Property and equipment	4,498	4,525	40,526
Investment securities	11,985	14,094	107,983
	<u>¥ 25,844</u>	<u>¥ 33,882</u>	<u>\$ 232,850</u>

Assets in the above table are pledged for the following liabilities:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Short-term borrowings	¥ 7,573	¥ 13,441	\$ 68,231
Borrowings from securities finance companies	673	606	6,064
Long-term borrowings	5,910	5,946	53,248
	<u>¥ 14,156</u>	<u>¥ 19,993</u>	<u>\$ 127,543</u>

In addition to above, at March 31, 2019, trading assets, etc. amounting to ¥37,264 million (\$335,742 thousand) and investments securities amounting to ¥1,428 million (\$12,866 thousand) are deposited as guarantee for settlement of trading accounts and securities borrowed, respectively. In addition to above, at March 31, 2018, trading assets, etc. amounting to ¥53,143 million and investments securities amounting to ¥1,313 million were deposited as guarantee for settlement of trading accounts and securities borrowed, respectively.

The fair value of the securities pledged at March 31, 2019 and 2018 are as follows:

	Millions of Yen		Thousands of U.S. dollars
	2019	2018	2019
Loaned securities on margin transactions	¥ 9,778	¥ 5,514	\$ 88,098
Securities pledged as collateral for borrowing from securities finance companies	3,292	6,842	29,660
Loaned securities	189	19,360	1,703
Other	34,047	43,804	306,758
	<u>¥ 47,306</u>	<u>¥ 75,520</u>	<u>\$ 426,219</u>

The fair value of the securities received as collateral at March 31, 2019 and 2018 are as follows:

	Millions of Yen		Thousands of U.S. dollars
	2019	2018	2019
Securities received on margin transactions	¥ 24,347	¥ 44,122	\$ 219,362
Securities borrowed	290	87,418	2,613
Securities pledged as collateral	49,458	59,514	445,608
Other	69,478	4,790	625,984
	<u>¥ 143,573</u>	<u>¥ 195,844</u>	<u>\$ 1,293,567</u>

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and deferred tax liabilities at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Deferred tax assets:			
Tax loss carryforwards	¥ 3,240	¥ 2,898	\$ 29,192
Liability for retirement benefits (employees)	1,848	1,721	16,650
Depreciation and amortization	1,142	1,460	10,289
Accrued bonuses	506	719	4,559
Allowance for doubtful accounts	466	435	4,199
Asset retirement obligations	408	396	3,676
Financial instruments transactions reserve	371	392	3,343
Impairment loss on land etc.	229	226	2,063
Retirement benefits payable for directors and corporate auditors	158	162	1,423
Loss on devaluation of investment securities	125	136	1,126
Cost recognized for the stock options	95	72	856
Social insurance costs for accrued bonuses	70	96	631
Loss on devaluation of golf memberships	51	50	459
Other	164	481	1,478
	8,873	9,244	79,944
Valuation allowance for tax loss carryforwards	(2,589)	-	(23,327)
Valuation allowance for deductible temporary differences	(1,904)	-	(17,154)
Total valuation allowance	(4,493)	(4,750)	(40,481)
Total	4,380	4,494	39,463
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(5,911)	(6,616)	(53,257)
Land revaluation excess	(1,457)	(1,457)	(13,128)
Asset for retirement benefits (employees)	(295)	(222)	(2,658)
Asset retirement obligations	(209)	(208)	(1,883)
Dividends receivable	(130)	(136)	(1,171)
Other	(27)	(21)	(243)
Total	(8,029)	(8,660)	(72,340)
Net deferred tax liabilities	¥ (3,649)	¥ (4,166)	\$ (32,877)

The Company applies the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28 issued on February 16, 2018, hereinafter the “Partial Amendments to Tax Effect Accounting Standard”) from the beginning of the year ended March 31, 2019. Deferred tax assets are shown in the segment of investments and other assets, and deferred tax liabilities are shown in the segment of non-current liabilities. As a result, “deferred tax assets” classified as “current assets” decreased by ¥1,036 million and “deferred tax assets” classified as “investments and other assets” decreased by ¥1,559 million, and “deferred tax liabilities” classified as “current liabilities” decreased by ¥24 million and “deferred tax liabilities” classified as “non-current liabilities” decreased by ¥2,571 million for the year ended March 31, 2018. The Company offset deferred tax assets and liabilities when the deferred tax assets liabilities are associated with the income taxes levied on the same taxable entity. As a result, total assets decreased by ¥2,596 million for the year ended March 31, 2018.

In addition, the Company added descriptions stated in the annotation No. 8 (excluding the total amount of valuation allowances) and No. 9 of the “Accounting Standard for Tax Effect

Accounting” set forth in Paragraph 3 to 5 of the Partial Amendments to Tax Effect Accounting Standard as follows. The Company does not add the descriptions for the year ended March 31, 2018 in accordance with the transition provision set forth in Paragraph 7.

Tax loss carryforwards (the amounts shown in the table below represent the deferred tax assets on the tax loss carryforwards that obtained by multiplying by a statutory tax rate) will expire as follows:

	Millions of yen						
	1 year or less	Over 1 year through 2 years	Over 2 years through 3 years	Over 3 years through 4 years	Over 4 years through 5 years	Over 5 years	Total
Tax loss carryforwards	¥ 331	440	550	86	91	1,742	¥ 3,240
Valuation allowance	(331)	(440)	(479)	(86)	(84)	(1,169)	(2,589)
Deferred tax assets recognized	¥ -	-	71	-	7	573	¥ 651

	Thousands of U.S. dollars						
	1 year or less	Over 1 year through 2 years	Over 2 years through 3 years	Over 3 years through 4 years	Over 4 years through 5 years	Over 5 years	Total
Tax loss carryforwards	\$ 2,982	3,964	4,956	775	820	15,695	\$ 29,192
Valuation allowance	(2,982)	(3,964)	(4,316)	(775)	(757)	(10,533)	(23,327)
Deferred tax assets recognized	\$ -	-	640	-	63	5,162	\$ 5,865

The Company recognized deferred tax assets of ¥651 million (\$5,865 thousand) for tax loss carryforwards (the amounts by multiplying by the statutory tax rate) of ¥3,240 million (\$29,192 thousand). The deferred tax assets include the deferred tax assets of the Company of ¥189 million (\$1,703 thousand) for tax loss carryforwards and the deferred tax assets of two subsidiaries in the Company’s tax filing group of ¥462 million (\$4,162 thousand) for tax loss carryforwards. The tax loss carryforwards of the Company have been incurred because the Company recorded the loss before income taxes for the years ended March 31, 2013 and 2019 in its non-consolidated financial statements. And the tax loss carryforwards of the two subsidiaries have been incurred because they recorded the loss before income taxes for the year ended March 31, 2019 in their non-consolidated financial statements. The amount of the deferred tax assets for the tax loss carryforwards considered realizable by taking into consideration of the estimated taxable income based on future Group profitability.

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and non-controlling interests for the years ended March 31, 2019 and 2018 is as follows:

	2019	2018
Statutory tax rate	30.5%	30.7%
Expenses not deductible for tax purposes	15.6	1.3
Income not credited for tax purposes	(12.2)	(0.3)
Per capita tax	3.1	0.9
Equity in gain of affiliates	(0.1)	(0.2)
Valuation allowance	6.4	(2.7)
Tax credits for salary increase	-	(2.4)
Differences in income tax rates applicable to consolidated subsidiaries	1.2	-
Other	0.0	6.7
Effective tax rate	<u>44.5%</u>	<u>34.0%</u>

12. RETIREMENT AND PENSION PLANS

The Company and its domestic consolidated subsidiaries have a defined contribution retirement and pension plan (Securities Omnibus DC Okasan Plan), a corporate defined benefit pension plan and an unfunded retirement and severance plan that provide for lump-sum payment of benefits.

Defined benefit plans

Followings are the information of defined benefit plans at March 31, 2019 and 2018 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligation at beginning of year	¥ 14,423	¥ 14,158	\$ 129,949
Service cost	814	774	7,334
Interest cost	9	11	81
Actuarial gain or loss	31	150	279
Benefits paid	(791)	(670)	(7,127)
Other	1	-	9
Retirement benefit obligation at end of year	<u>¥ 14,487</u>	<u>¥ 14,423</u>	<u>\$ 130,525</u>

Note: 1. Certain consolidated subsidiaries adopt the simplified method for calculation of retirement benefit obligation

2. Retirement benefit expenses of the consolidated subsidiaries adopted the simplified method are included in above service cost.

(2) Reconciliation of changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Plan assets at beginning of year	¥ 9,516	¥ 9,173	\$ 85,737
Expected return on plan assets	46	44	414
Actuarial gain or loss	(27)	425	(243)
Employer contributions	281	273	2,532
Benefits paid	(418)	(399)	(3,766)
Other	1	-	9
Plan assets at end of year	<u>¥ 9,399</u>	<u>¥ 9,516</u>	<u>\$ 84,683</u>

(3) Reconciliation between net of retirement benefit obligation and plan assets, and liability or asset for retirement benefits recognized in consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligation	¥ 8,406	¥ 8,463	\$ 75,736
Plan assets	(9,399)	(9,516)	(84,683)
	(993)	(1,053)	(8,947)
Unfunded retirement benefit obligation	6,081	5,960	54,789
Net of liability and assets for retirement benefits	<u>¥ 5,088</u>	<u>¥ 4,907</u>	<u>\$ 45,842</u>
Liability for retirement benefits	¥ 6,459	¥ 6,341	\$ 58,194
Asset for retirement benefits	1,371	1,434	12,352
Net of liability and asset for retirement benefits	<u>¥ 5,088</u>	<u>¥ 4,907</u>	<u>\$ 45,842</u>

(4) The components of retirement benefit expenses

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Service cost	¥ 814	¥ 774	\$ 7,334
Interest cost	9	11	81
Expected return on plan assets	(46)	(44)	(414)
Amortization of actuarial gain or loss	(173)	(311)	(1,559)
Retirement benefit expenses	¥ 604	¥ 430	\$ 5,442

(5) Remeasurements of retirement benefit plans before related tax effects

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Actuarial gain or loss	¥ (231)	¥ (36)	\$ (2,081)

(6) Accumulated remeasurements of retirement benefit plans before related tax effects

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Unrecognized actuarial gain or loss	¥ 159	¥ 389	\$ 1,433

(7) Plan assets

(a) Percentage by major category of plan assets

	2019	2018
Equity securities	37%	36%
General account	32	32
Debt securities	18	19
Other	13	13
Total	100%	100%

(b) Determination procedure of long-term expected rate of return

In determining long-term expected rate of return on plan assets, the Company considers the current portfolio of plans assets, actual performance result, investment policy and market trend.

(8) Basis for calculation of actuarial assumptions

The assumptions used in accounting for the above plans at March 31, 2019 and 2018 are as follows:

	2019	2018
(a) Discount rate	0.00%	0.07%
(b) Long-term expected rate of return	0.50%	0.50%

Defined contribution plans

The amount to be paid by the Company and consolidated subsidiaries to the defined contribution plans is ¥207 million (\$1,865 thousand) and ¥202 million for the years ended March 31, 2019 and 2018, respectively.

Retirement benefits for directors and corporate auditors

Directors and corporate auditors are not covered by the plans described above. For such persons, certain consolidated subsidiaries have unfunded defined benefit pension plans. Under the plans, directors and corporate auditors are entitled to lump-sum payments based on the current rate of pay and length of service when they leave the Company.

At March 31, 2019 and 2018, the subsidiaries provide for the amount of ¥97 million (\$874 thousand) and ¥147 million, respectively.

13. ASSET RETIREMENT OBLIGATIONS

The asset retirement obligation is based on estimated future restoration liabilities related to leasehold contracts of branch offices and so on.

The obligation is calculated based on the estimated period of use of 9 to 58 years and discounted rate of 0.00% to 2.33%.

The following table provides the Company's total asset retirement obligation for the years ended March 31, 2019 and 2018:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Balance, beginning of year	¥ 1,099	¥ 1,041	\$ 9,902
Liabilities incurred by asset acquisition	45	61	405
Accretion expenses	13	12	117
Liabilities settled	(22)	(15)	(198)
Other increase (decrease)	-	-	-
Balance, end of year	¥ 1,135	¥ 1,099	\$ 10,226

14. FINANCIAL INSTRUMENTS TRANSACTIONS RESERVE

The Financial Instruments and Exchange Law of Japan requires a securities company to set aside a reserve in proportion to its securities and other related trading or derivative transactions to cover possible customer losses incurred by default of the securities company on securities or derivative transactions.

Financial instruments transactions reserve is calculated based on Article 46-5, Paragraph 1 of the Financial Instruments and Exchange Law.

15. SHAREHOLDERS' EQUITY

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus). No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Companies Act also provides that additional paid-in capital and legal reserve are available for appropriations by the resolution of the shareholders. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheet.

Cash dividends and appropriations to the legal reserve charged to retained earnings for the years ended March 31, 2019 and 2018 represent dividends paid out during those years and the related appropriations to the legal reserve. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

Dividends paid during the year ended March 31, 2018 which was approved by the Board of Directors held on May 17, 2017 are as follows:

(a) Total dividends	¥4,910 million
(b) Cash dividends per common share	¥25
(c) Record date	March 31, 2017
(d) Effective date	June 8, 2017

Cash dividends for treasury stock held by subsidiaries of ¥85 million were excluded from the above table.

Dividends paid during the year ended March 31, 2019 which was approved by the Board of Directors held on May 22, 2018 are as follows:

(a) Total dividends	¥4,912 million (\$44,256 thousand)
(b) Cash dividends per common share	¥25 (\$0.23)
(c) Record date	March 31, 2018
(d) Effective date	June 8, 2018

Cash dividends for treasury stock held by subsidiaries of ¥85 million (\$766 thousand) were excluded from the above table.

Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2019 which was approved by the Board of Directors held on May 15, 2019 are as follows:

(a) Total dividends	¥2,998 million (\$27,011 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥15 (\$0.14)
(d) Record date	March 31, 2019
(e) Effective date	June 7, 2019

Cash dividends for treasury stock held by subsidiaries are not excluded from the above table.

16. STOCK OPTIONS

The cost recognized for the stock options is ¥84 million (\$757 thousand) and ¥87 million which is included in selling, general and administrative expenses for the years ended March 31, 2019 and 2018, respectively.

Description of each stock option plans at March 31, 2019 is as follows:

Stock option plans	1st Plan approved on June 26, 2015	2nd Plan approved on June 29, 2016	3rd Plan approved on June 29, 2017	4th Plan approved on June 28, 2018
Individuals granted the stock option	6 directors of the Company (except for audit and supervisory committee members) and 23 directors of its subsidiary (Okasan Securities Co., Ltd.)	5 directors of the Company (except for audit and supervisory committee members) and 22 directors of its subsidiary (Okasan Securities Co., Ltd.)	5 directors of the Company (except for audit and supervisory committee members), 4 directors of its subsidiary (Okasan Securities Co., Ltd.) and 17 executive officers of its subsidiary (Okasan Securities Co., Ltd.)	3 directors of the Company (except for audit and supervisory committee members), 7 directors of its subsidiary (Okasan Securities Co., Ltd.) and 19 executive officers of its subsidiary (Okasan Securities Co., Ltd.)
Type and number of shares to be issued upon the exercise of the stock option	129,400 shares of common stock	216,000 shares of common stock	144,700 shares of common stock	202,900 shares of common stock
Grant date	July 13, 2015	July 14, 2016	July 14, 2017	July 13, 2018
Condition for execution of right	No condition for execution of right is required.	No condition for execution of right is required.	No condition for execution of right is required.	No condition for execution of right is required.
Stipulations on requisite service period	There are no stipulations on requisite service period.	There are no stipulations on requisite service period.	There are no stipulations on requisite service period.	There are no stipulations on requisite service period.

Exercisable period	From July 14, 2015 to July 13, 2045	From July 15, 2016 to July 14, 2046	From July 15, 2017 to July 14, 2047	From July 14, 2018 to July 13, 2048
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A summary of the scale and movement of the stock option plan for the year ended March 31, 2019 is as follows:

	1st	2nd	3rd	4th
Non-vested:				
Outstanding at March 31, 2018	-	-	-	-
Granted	-	-	-	202,900
Forfeited	-	-	-	-
Vested	-	-	-	202,900
Outstanding at March 31, 2019	-	-	-	-
Vested:				
Outstanding at March 31, 2018	100,100	196,000	144,700	-
Vested	-	-	-	202,900
Exercised	2,600	5,100	5,000	-
Forfeited	-	-	-	-
Outstanding at March 31, 2019	97,500	190,900	139,700	202,900

A summary of information for the stock option plan is as follows:

	1st	2nd	3rd	4th
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise	¥580 (\$5.23)	¥580 (\$5.23)	¥580 (\$5.23)	-
Fair value at the grant date	¥715 (\$6.44)	¥383 (\$3.45)	¥614 (\$5.53)	¥403 (\$3.63)

The fair value of the 4th stock options was estimated using the Black-Scholes option-valuation model with the following assumptions:

Expected volatility *1	35.836%
Expected remaining outstanding period *2	5.4 years
Expected dividend *3	¥25 (\$0.23) per share
Risk-free interest rate *4	-0.099%

*1 Expected volatility is based on the actual stock prices traded from February 17, 2013 to July 13, 2018.

*2 Expected remaining outstanding period is based on the actual service period of the Company's directors, directors, executive officers and corporate auditors of its subsidiary and their retired age.

*3 Expected dividend is based on the dividends applicable for the year ended March 31, 2018.

*4 Risk-free interest rate is the government bond yield for a term consistent with the expected remaining outstanding period.

The number of rights to vest in the future periods is determined based on the actual forfeited number of the stock options because it is difficult to estimate forfeiture in the future.

17. SURPLUS ON LAND REVALUATION

At March 31, 2002, a consolidated subsidiary revaluated its own land for business activities in accordance with the "Law Concerning Land Revaluation" (the "Law") effective March 31, 1998. The net unrealized gain, net of related taxes and non-controlling interests, are reported as "Surplus on land revaluation" in a component of net assets and the related deferred tax liabilities are included in non-current deferred income taxes.

Fair values of the land are determined based on the values specified in Article 2-1, 2-3 and 2-5 of the Enforcement Ordinance of the Law concerning Land Revaluation.

Because the fair value of the land at both March 31, 2019 and 2018 is over the book value of the land after the revaluation, the difference between the fair value and the book value of the land is not disclosed.

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major elements of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Commissions and brokerage	¥ 12,039	¥ 13,164	\$ 108,469
Employees' compensation and benefits	32,555	33,818	293,315
Occupancy and rental	7,530	7,463	67,844
Data processing and office supplies	5,326	6,432	47,986
Depreciation and amortization	3,098	3,609	27,912
Taxes other than income taxes	1,050	1,287	9,461
Provision for doubtful accounts	96	(3)	865
Other	3,270	3,268	29,462
	<u>¥ 64,964</u>	<u>¥ 69,038</u>	<u>\$ 585,314</u>

19. IMPAIRMENT LOSS

Because the Company revised the utilization plan for the internet trading system of the consolidated subsidiary, Okasan Information Systems Co., Ltd., an impairment loss on the system was recognized for the year ended March 31, 2018 as follows:

Location	Usage	Classification
Taito City, Tokyo	Business assets	Software and Other
	Millions of yen	
<u>Classification</u>		
Software	¥ 4,693	
Lease assets	125	
Furniture and fixtures	<u>5</u>	
	<u>4,823</u>	

The assets that are used for business are grouped according to the classification for management reporting on the basis of each company.

The recoverable value for the assets is measured by its value in use and the assets whose cash flow is not expected in the future are determined to have no value.

20. OTHER COMPREHENSIVE INCOME (LOSS)

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized holding gain (loss) on available-for-sale securities:			
Arising during the year	¥ (2,372)	¥ 4,253	\$ (21,372)
Reclassification adjustment	(12)	(4,938)	(108)
Before tax amount	<u>(2,384)</u>	<u>(685)</u>	<u>(21,480)</u>
Tax benefit (expense)	702	179	6,325
Net-of-tax amount	<u>(1,682)</u>	<u>(506)</u>	<u>(15,155)</u>
Foreign currency translation adjustments:			
Arising during the year	159	(227)	1,433
Remeasurements of defined benefit plans:			
Arising during the year	(57)	275	(514)
Reclassification adjustment	(174)	(311)	(1,568)
Before tax amount	<u>(231)</u>	<u>(36)</u>	<u>(2,082)</u>
Tax benefit (expense)	71	11	640
Net-of-tax amount	<u>(160)</u>	<u>(25)</u>	<u>(1,442)</u>
Share of other comprehensive gain (loss) of affiliates accounted for by equity method:			
Arising during the year	(124)	332	(1,117)
Total other comprehensive loss	<u>¥ (1,807)</u>	<u>¥ (426)</u>	<u>\$ (16,281)</u>

21. PER SHARE INFORMATION

(a) Net Income per Share

Basic and diluted net income per share, and reconciliation of the numbers and the amounts used in the basic and diluted net income per share computations for the years ended March 31, 2019 and 2018 are as follows:

	Yen		U.S. dollars
	2019	2018	2019
Basic net income per share	¥ 4.30	¥ 29.56	\$ 0.04
Diluted net income per share	4.29	29.50	0.04

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income attributable to owners of the parent	¥ 853	¥ 5,853	\$ 7,685
Net income not applicable to common shareholders	-	-	-
Net income attributable to owners of the parent available to common shares	<u>¥ 853</u>	<u>¥ 5,853</u>	<u>\$ 7,685</u>

	Number of shares (Thousand)	
	2019	2018
Weighted average number of shares outstanding on which basic net income per share is calculated	198,229	198,010
Number of diluted shares (stock acquisition rights)	590	407

(b) Net Assets per Share

Net assets per share, and reconciliation of the numbers and the amounts used in the net assets per share computations at March 31, 2019 and 2018 are as follows:

	Yen		U.S. dollars
	2019	2018	2019
Net assets per share	¥ 761.53	¥ 791.46	\$ 6.86

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total net assets	¥ 175,184	¥ 180,049	\$ 1,578,376
Amount deducted from total net assets:			
Stock acquisition rights	311	236	2,802
Non-controlling interests	23,901	23,100	215,344
Net assets applicable to common stockholders	<u>¥ 150,972</u>	<u>¥ 156,713</u>	<u>\$ 1,360,230</u>

	Number of shares (Thousand)	
	2019	2018
Number of shares outstanding at the end of year on which net assets per share is calculated	198,248	198,005

22. SUPPLEMENTARY CASH FLOW INFORMATION

Reconciliation between “Cash on hand and in banks” in the accompanying consolidated balance sheet and “Cash and cash equivalents” in the accompanying consolidated statement of cash flows at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Cash on hand and in banks	¥ 71,228	¥ 59,848	\$ 641,752
Time deposits that have maturities of over three months when acquired	(7,044)	(5,708)	(63,466)
Cash and cash equivalents	<u>¥ 64,184</u>	<u>¥ 54,140</u>	<u>\$ 578,286</u>

23. COMMITMENTS AND CONTINGENCIES

At March 31, 2019 and 2018, the Company and certain subsidiaries have guaranteed approximately ¥4 million (\$36 thousand) and ¥6 million of employee mortgage loans to financial institutions, respectively. If an employee defaults on his/her loan payments, the Company and/or certain subsidiaries are required to perform under the guarantee.

24. LEASES

(a) Finance Lease

The Company leases certain computer terminals, communication equipment and software under finance leases.

(b) Operating Lease

Future minimum lease payments required under noncancellable operating leases at March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Within one year	¥ 1,787	¥ 1,759	\$ 16,101
Over one year	7,036	1,946	63,393
	<u>¥ 8,823</u>	<u>¥ 3,705</u>	<u>\$ 79,494</u>

25. FINANCIAL INSTRUMENTS

Conditions of Financial instruments

(1) Management policy

The Company and subsidiaries (the “Group”) primary engages in financial instruments trading business, which include trading in securities, brokerage for trading in securities, underwriting and distribution of securities, public offering and secondary distribution of securities and private offering of securities. For the above mentioned business, the Group uses its own resources and finances funds through bank loans and call money etc.

The Group makes short-term deposits and loans for margin transaction, and operates securities trading for the Group own accounts for fund management purposes.

Regarding the trading business, the Group works to do brokerage for trading in securities smoothly and contribute to a sound market system in an Exchange transaction, and works to make fair prices and transact smoothly in a Non-Exchange transaction and to reduce losses from deals etc.

Regarding the derivative financial instruments, the Group uses interest rate swaps to hedge future fluctuations of interest rates and does not enter into interest rate swaps for trading or speculative purposes.

(2) Financial instruments and risks

The main financial assets of the Group consist of cash on hand and in banks, cash segregated as deposits for customers and others, trading assets, receivables on margin transactions,

receivables on collateralized securities transactions and investment securities.

The cash in banks are exposed to credit risk of banks. Most of cash segregated as deposits for customers and others are cash segregated as deposits for customers, and are segregated from the Group own assets and trusted to banks in accordance with the Japanese Financial Instruments and Exchange Law. The trusted funds are secured by the Trust Act.

Trading position is made for meeting customers' various needs, complementing the market and hedging the position. Such trading involves market and counterparty risks which possibly effect on the financial position of the Group. Market risk is the risk arising from future changes in the market values of securities, interest rates and foreign currency exchange rates, and counterparty risk is the risk arising from default by the counterparty.

Receivables on margin transactions consist of loans receivable from customers and cash deposits as collateral for securities borrowed from securities finance companies, and are exposed to credit risk of counterparties. Receivables on collateralized securities transactions consist of cash collateral for securities borrowed, and are exposed to counterparty risk. Investment securities are exposed to issuer's credit risk and market risk.

The main financial liabilities of the Group consist of trading liabilities, payables on margin transactions, payables on collateralized securities transactions, deposits received, guarantee deposits received and borrowings.

Payables on margin transactions consist of borrowings from securities finance companies and proceeds from securities sold for customers' accounts. Payables on collateralized securities transactions consist of cash collateral for securities loaned and are received as collateral for a loan of bonds such as government bonds. Deposit received is temporary unsettled amount arising from transaction with customers. Guarantee deposits received is deposit received for margin transactions from customers. Part of financial liabilities, such as borrowings, are exposed to liquidity risk that is the risk for the Group not to make a payment on due date. The borrowings with variable interest rate are exposed to interest rate fluctuation risk.

The Group uses derivative financial instruments as part of asset and liability management. For trading purpose, the Group uses derivatives listed on exchange such as stock index futures and bond futures, as well as over-the-counter derivatives such as forward foreign exchange transactions. For non-trading purpose, the Group uses interest rate swaps. Interest rate swaps are used to hedge future cash flow fluctuation arising from interest rate fluctuations on the borrowings. The difference in amounts to be paid or received on interest rate swaps is recognized over the life of the agreements as an adjustment to interest expense, if the agreements meet certain hedging criteria ("exceptional accounting method"). Interest rate swaps are exposed to interest rate fluctuation risk, however, counterparties are limited to the lender.

(3) Financial instruments risk management

The Group maintains appropriate risk management and control measures in order to maintain the Group financial stability and to effectively use the Group business resources.

The Company controls its purchases, sales and market risk of investment securities in accordance with investment securities management rules.

Okasan Securities Co., Ltd., our core firm, controls market fluctuation risk principally through position limits, and counterparty risk principally through credit limits by each financial instrument. Primarily, trading department checks the position and the gain or loss. Secondly, risk control department ascertains the position and the assessed risks reported by the trading department, and supervise the position.

The loss on proprietary trading position estimated by VaR is ¥171 million (\$1,541 thousand) calculated using historical method (holding period: one day, confidence interval: 99%, observation period: 1,250 days) at March 31, 2019. The Company ascertained the reliability and validity of the model daily by performing a comparison back-test of VaR and actual profit and loss.

In order to reduce the risks, receivables on margin transactions are controlled by daily credit management through setup of inception criteria for margin transactions and limits for open interest, deposits reception when market fluctuates in accordance with customer management rules. Liquidity risk is controlled based on fund management plan in accordance with liquidity risk management rules. The Group also makes contingency plan

to mitigate liquidity crisis.

Securities subsidiaries other than Okasan Securities Co., Ltd. also maintain appropriate risk controls.

(4) Supplemental explanation regarding fair value of financial instruments

The contract amount of the derivative transactions does not represent the risk of the derivative transactions.

Fair value of financial instruments

The carrying amounts on the consolidated balance sheet, fair value, and differences at March 31, 2019 and 2018 are as follows.

Financial instruments, of which it is extremely difficult to measure the fair value, are not included. (Please see “(2) Financial instruments of which the fair value is extremely difficult to measure”.)

	Millions of yen					
	2019			2018		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
Cash on hand and in banks	¥ 71,228	¥ 71,228	¥ -	¥ 59,848	¥ 59,848	¥ -
Cash segregated as deposits for customers and others	69,278	69,278	-	68,932	68,932	-
Trading assets, short-term investments and investment securities						
Trading securities	93,599	93,599	-	112,118	112,118	-
Held-to-maturity debt securities	42	44	2	47	50	3
Available-for-sale securities	35,796	35,796	-	37,148	37,148	-
Receivables arising from unsettled trades	8,346	8,346	-	9,689	9,689	-
Receivables on margin transactions	32,430	32,430	-	51,478	51,478	-
Receivables on collateralized securities transactions	62,641	62,641	-	87,549	87,549	-
Short-term guarantee deposits	4,195	4,195	-	3,682	3,682	-
Total	¥ 377,555	¥ 377,557	¥ 2	¥ 430,491	¥ 430,494	¥ 3
Liabilities:						
Trading liabilities						
Trading securities	¥ 64,661	¥ 64,661	¥ -	¥ 62,961	¥ 62,961	¥ -
Payables on margin transactions	12,778	12,778	-	12,006	12,006	-
Payables on collateralized securities transactions	92	92	-	19,373	19,373	-
Deposits received	39,464	39,464	-	37,484	37,484	-
Guarantee deposits received	30,078	30,078	-	36,507	36,507	-
Short-term borrowings	73,345	73,370	25	89,647	89,663	16
Long-term borrowings	6,610	6,619	9	10,048	10,119	71
Total	¥ 227,028	¥ 227,062	¥ 34	¥ 268,026	¥ 268,113	¥ 87
Derivative transactions	¥ 9	¥ 9	¥ -	¥ (30)	¥ (30)	¥ -

	Thousands of U.S. dollars		
	2019		
	Carrying value	Fair value	Differences
Assets:			
Cash on hand and in banks	\$ 641,752	\$ 641,752	\$ -
Cash segregated as deposits for customers and others	624,182	624,182	-
Trading assets, short-term investments and investment securities			
Trading securities	843,310	843,310	-
Held-to-maturity debt securities	378	396	18
Available-for-sale securities	322,516	322,516	-
Receivables arising from unsettled trades	75,196	75,196	-
Receivables on margin transactions	292,189	292,189	-
Receivables on collateralized securities transactions	564,384	564,384	-
Short-term guarantee deposits	37,796	37,796	-
Total	\$ 3,401,703	\$ 3,401,721	\$ 18
Liabilities:			
Trading liabilities			
Trading securities	\$ 582,584	\$ 582,584	\$ -
Payables on margin transactions	115,128	115,128	-
Payables on collateralized securities transactions	829	829	-
Deposits received	355,564	355,564	-
Guarantee deposits received	270,997	270,997	-
Short-term borrowings	660,825	661,050	225
Long-term borrowings	59,555	59,636	81
Total	\$ 2,045,482	\$ 2,045,788	\$ 306
Derivative transactions	\$ 81	\$ 81	\$ -

* Derivative receivables and payables are on net basis. Items that are net payables are shown in parenthesis.

(1) Fair value measurement of financial instruments

Assets:

Cash on hand and in banks, Cash segregated as deposits for customers and others, Receivables arising from unsettled trades, Receivables on margin transactions, Receivables on collateralized securities transactions and Short-term guarantee deposits

The carrying amount approximates fair value because of the short maturity of these instruments.

Trading assets, Short-term investments and Investment securities

The carrying amount approximates fair value because the carrying amount of equity securities, debt securities and beneficiary certificates is calculated by quoted market price. The carrying amount of certificate of deposit approximates fair value because of the short maturity of these instruments. Please see note 4. TRADING ASSETS AND LIABILITIES and see note 7. SECURITIES FOR NON-TRADING PURPOSES for

information by category.

Liabilities:

Trading liabilities

The carrying amount approximates fair value because the carrying amount of equity securities, debt securities and beneficiary certificates is calculated by quoted market price. Please see note 4. TRADING ASSETS AND LIABILITIES for information by category.

Payables on margin transactions, Payables on collateralized securities transactions, Deposits received, Guarantee deposits received and Short-term borrowings

The carrying amount approximates fair value because of the short maturity of these instruments. Fair value of current installments of long-term borrowings included in short-term borrowings is calculated as below. (See Long-term borrowings.)

Long-term borrowings

The carrying amount of long-term borrowings with variable interest rate approximates fair value because the fair value is reflected the fluctuation of interest market in a short period and credit status of the Company does not change so much from when the Company borrowed. Fair value of long-term borrowings with fixed interest rate is based on the present value of future cash flows of interest and principal payments discounted using the current borrowing rate for similar borrowings of a comparable maturity.

Fair value of certain long-term borrowings with interest rate swaps for which exceptional accounting method applied are based on the present value of future cash flows of interest and principal payments discounted using the current borrowing rate for similar borrowings of a comparable maturity.

Derivative Transactions:

Please see note 26. DERIVATIVES.

(2) Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Unlisted equity securities	¥ 6,669	¥ 6,748	\$ 60,087
Investments in limited partnership and similar partnership	326	205	2,937
Total	¥ 6,995	¥ 6,953	\$ 63,024

(3) Projected future redemption of monetary claim and securities with maturities
March 31, 2019

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	¥ 71,228	¥ -	¥ -	¥ -
Cash segregated as deposits for customers and others	69,278	-	-	-
Trading assets, short-term investments and investment securities:				
Held-to-maturity debt securities:				
Government bonds	-	42	-	-
Available-for-sale securities with maturities:				
Other	2,590	749	183	-
Receivables on margin transactions	32,430	-	-	-
Receivables on collateralized securities transactions	62,641	-	-	-
Short-term guarantee deposits	4,195	-	-	-
	<u>¥ 242,362</u>	<u>¥ 791</u>	<u>¥ 183</u>	<u>¥ -</u>
	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	\$ 641,752	\$ -	\$ -	\$ -
Cash segregated as deposits for customers and others	624,182	-	-	-
Trading assets, short-term investments and investment securities:				
Held-to-maturity debt securities:				
Government bonds	-	379	-	-
Available-for-sale securities with maturities:				
Other	23,335	6,748	1,649	-
Receivables on margin transactions	292,189	-	-	-
Receivables on collateralized securities transactions	564,384	-	-	-
Short-term guarantee deposits	37,796	-	-	-
	<u>\$ 2,183,638</u>	<u>\$ 7,127</u>	<u>\$ 1,649</u>	<u>¥ -</u>

March 31, 2018

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	¥ 59,848	¥ -	¥ -	¥ -
Cash segregated as deposits for customers and others	68,932	-	-	-
Trading assets, short-term investments and investment securities: Held-to-maturity debt securities: Government bonds	-	48	-	-
Available-for-sale securities with maturities: Other	1,500	889	235	-
Receivables on margin transactions	51,478	-	-	-
Receivables on collateralized securities transactions	87,549	-	-	-
Short-term guarantee deposits	3,682	-	-	-
	<u>¥ 272,989</u>	<u>¥ 937</u>	<u>¥ 235</u>	<u>¥ -</u>

(4) The annual maturities of the long-term debt and other interest-bearing debt

March 31, 2019

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	¥ 68,907	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	4,438	3,750	2,660	200	-	-
Borrowings from securities finance	3,161	-	-	-	-	-
Total	<u>¥ 76,506</u>	<u>¥ 3,750</u>	<u>¥ 2,660</u>	<u>¥ 200</u>	<u>¥ -</u>	<u>¥ -</u>

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	\$ 620,840	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term borrowings	39,985	33,787	23,966	1,802	-	-
Borrowings from securities finance	28,480	-	-	-	-	-
Total	<u>\$ 689,305</u>	<u>\$ 33,787</u>	<u>\$ 23,966</u>	<u>\$ 1,802</u>	<u>\$ -</u>	<u>\$ -</u>

March 31, 2018

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	¥ 86,387	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term borrowings	3,260	4,438	3,050	2,360	200	-
Borrowings from securities finance	6,503	-	-	-	-	-
Total	¥ <u>96,150</u>	¥ <u>4,438</u>	¥ <u>3,050</u>	¥ <u>2,360</u>	¥ <u>200</u>	¥ <u>-</u>

* Borrowings from securities finance companies are deemed to be settled within one year.

26. DERIVATIVES

Derivatives utilized for trading purposes

The contract or notional amounts and fair value of derivative financial instruments for trading purposes held at March 31, 2019 and 2018 are summarized as follows:

(1) Stocks

March 31, 2019

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Stock index futures:			
Written	¥ 902	¥ 0	¥ 0
Purchased	1,410	0	0
Stock index options:			
Written	7	4	3
Purchased	19	15	(4)
Stock options traded over-the-counter:			
Written	1	0	1
Purchased	1	0	(1)
			¥ <u>(1)</u>

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Stock index futures:			
Written	\$ 8,127	\$ 0	\$ 0
Purchased	12,704	0	0
Stock index options:			
Written	63	36	27
Purchased	171	135	(36)
Stock options traded over-the-counter:			
Written	9	0	9
Purchased	9	0	(9)
			\$ <u>(9)</u>

March 31, 2018

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Stock index futures:			
Written	¥ 2,554	¥ (27)	¥ (27)
Purchased	1,166	0	0
Stock index options:			
Written	6	5	1
Purchased	10	6	(4)
Stock options traded over-the-counter:			
Written	2	2	(0)
Purchased	1	2	1
			¥ <u>(29)</u>

The fair value of stock index futures and stock index options is computed using prices on the market and the fair value of stock options traded over-the-counter is computed based on the underlying stock prices, volatilities and interest rate.

Gain or loss on deemed settlement is disclosed in the "Fair value" column of stock index futures above.

(2) Bond

March 31, 2019

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:			
Written	¥ 3,678	¥ (1)	¥ (1)
Purchased	-	-	-
			¥ <u>(1)</u>

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:			
Written	\$ 33,138	\$ (9)	\$ (9)
Purchased	-	-	-
			\$ <u>(9)</u>

March 31, 2018

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
Bond futures:			
Written	¥ 16,447	¥ 13	¥ 13
Purchased	906	(1)	(1)
			¥ <u>12</u>

The fair value of bond futures and bond options is computed using prices on the market. Gain or loss on deemed settlement is disclosed in the "Fair value" column above.

(3) Foreign exchange
March 31, 2019

	Millions of yen			
	Contract or notional amounts		Fair value	Valuation gain (loss)
Forward foreign exchange:				
Written:				
U.S. dollars	¥ 1,580	¥	(6)	¥ (6)
Mexican Peso	490		2	2
Indian rupee	447		(3)	(3)
Australian dollar	416		(1)	(1)
Russian ruble	324		(0)	(0)
Brazilian real	257		6	6
Other	393		(0)	(0)
				¥ (2)

	Thousands of U.S. dollars			
	Contract or notional amounts		Fair value	Valuation gain (loss)
Forward foreign exchange:				
Written:				
U.S. dollars	\$ 14,236	\$	(54)	\$ (54)
Mexican Peso	4,415		18	18
Indian rupee	4,027		(27)	(27)
Australian dollar	3,748		(9)	(9)
Russian ruble	2,919		0	0
Brazilian real	2,316		54	54
Other	3,541		0	0
				\$ (18)

March 31, 2018

	Millions of yen			
	Contract or notional amounts		Fair value	Valuation gain (loss)
Forward foreign exchange:				
Written:				
Russian ruble	¥ 330	¥	(2)	¥ (2)
Brazilian real	322		2	2
Australian dollar	311		1	1
Mexican Peso	283		(9)	(9)
Indian rupee	259		(5)	(5)
South African rand	186		(3)	(3)
Other	284		(1)	(1)
Purchased:				
U.S. dollars	170		0	0
				¥ (17)

The fair value of foreign exchange margin trading is computed using prices on the market. The fair value of forward foreign exchange is based on the difference between the present value of future cash flows of receipt amount and the present value of future cash flows of payment amount. Gain or loss on deemed settlement is disclosed in the "Fair value" column of forward foreign exchange above.

Derivatives utilized for non-trading purposes

Derivative transactions to which hedge accounting are applied at March 31, 2019 and 2018 are summarized as follows:

Nature of transaction	Hedged items	Contract or notional amounts		
		Millions of yen		Thousands of U.S. dollars
		2019	2018	2019
Interest rate swaps:				
Variable rate received for fixed rate	Long-term borrowings	¥ 6,200	¥ 6,200	\$ 55,861

*1 Hedge accounting method is the exceptional accounting method which is the difference in amounts to be paid or received on interest rate swaps being recognized over the life of the agreements as an adjustment to interest expense.

*2 Fair value of derivative financial instrument is included in fair value of the long-term borrowings as hedged items for certain long-term borrowings for which interest rate swap contracts are used to hedge the interest rate fluctuations.

27. INVESTMENT AND RENTAL PROPERTY

The Company and certain consolidated subsidiaries own their rental office buildings, land etc. (hereafter “rental property”) in Tokyo and other areas. Income from the rental property is ¥49 million (\$441 thousand) and ¥32 million for the years ended March 31, 2019 and 2018, respectively.

The amounts recognized in the consolidated balance sheet and fair values related to the rental property are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Consolidated balance sheet amount:			
Balance at beginning of the year	¥ 5,435	¥ 5,421	\$ 48,968
Increase/(decrease)	(33)	14	(297)
Balance at end of the year	¥ 5,402	¥ 5,435	\$ 48,671
Fair value	¥ 8,341	¥ 6,303	\$ 75,151

The above fair value is based on real-estate appraisals, and is estimated by the Company.

28. SEGMENT INFORMATION

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business results.

“Securities business”, “Asset management business” and “Support business” are the Company’s reported segments.

“Securities business” renders trading and brokerage for trading in securities, underwriting and distribution of securities, public offering and secondary distribution of securities and private offering of securities. “Asset management business” renders investment management and investment advisory. “Support business” renders information processing services, administrative support services, custodianship and temping services, etc.

Segment operating revenues, income, assets, liabilities and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements.

Segment income is calculated based on operating income in the consolidated statement of income.

Intersegment revenues and transfer are based on arms-length transactions.

Operating revenues, income, assets, liabilities and others by reported segments

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2019 and 2018 are summarized as follows:

		Millions of yen										
		2019										
		Reported segments										
		Asset										
		Securities	management	Support	Total	Adjustments	Consolidated					
Operating revenues:												
Revenues from third parties	¥	55,861	¥	11,032	¥	980	¥	67,873	¥	3	¥	67,876
Intersegment revenues		4,012		47		11,380		15,439		(15,439)		-
Total	¥	<u>59,873</u>	¥	<u>11,079</u>	¥	<u>12,360</u>	¥	<u>83,312</u>	¥	<u>(15,436)</u>	¥	<u>67,876</u>
Segment income	¥	<u>746</u>	¥	<u>948</u>	¥	<u>976</u>	¥	<u>2,670</u>	¥	<u>(830)</u>	¥	<u>1,840</u>
Segment assets	¥	<u>372,511</u>	¥	<u>19,828</u>	¥	<u>28,298</u>	¥	<u>420,637</u>	¥	<u>5,063</u>	¥	<u>425,700</u>
Segment liabilities	¥	<u>253,724</u>	¥	<u>1,522</u>	¥	<u>14,057</u>	¥	<u>269,303</u>	¥	<u>(18,787)</u>	¥	<u>250,516</u>
Others:												
Depreciation	¥	586	¥	32	¥	2,372	¥	2,990	¥	108	¥	3,098
Interest and dividend income		1,998		0		-		1,998		(302)		1,696
Interest expense		1,269		-		-		1,269		(197)		1,072
Equity in gain of affiliates		51		-		-		51		-		51
Impairment loss		111		-		11		122		-		122
Investments in affiliates		5,127		-		-		5,127		-		5,127
Increase in property and equipment and intangible assets		504		12		2,577		3,093		41		3,134

Millions of yen						
2018						
Reported segments						
	Securities	Asset management	Support	Total	Adjustments	Consolidated
Operating revenues:						
Revenues from third parties	¥ 68,575	¥ 12,379	¥ 963	¥ 81,917	¥ 4	81,921
Intersegment revenues	4,434	1	11,331	15,766	(15,766)	-
Total	¥ 73,009	¥ 12,380	¥ 12,294	¥ 97,683	¥ (15,762)	81,921
Segment income	¥ 12,044	¥ 1,398	¥ (847)	¥ 12,595	¥ (875)	11,720
Segment assets	¥ 434,080	¥ 19,452	¥ 28,710	¥ 482,242	¥ (7,079)	475,163
Segment liabilities	¥ 308,450	¥ 1,749	¥ 15,011	¥ 325,210	¥ (30,096)	295,114
Others:						
Depreciation	¥ 608	¥ 34	¥ 2,872	¥ 3,514	¥ 95	3,609
Interest and dividend income	2,077	-	1	2,078	(332)	1,746
Interest expense	1,390	-	-	1,390	(227)	1,163
Equity in gain of affiliates	93	-	0	93	-	93
Impairment loss	-	-	4,823	4,823	-	4,823
Investments in affiliates	5,240	-	-	5,240	-	5,240
Increase in property and equipment and intangible assets	574	4	3,474	4,052	4	4,056

Thousands of U.S. dollars						
2019						
Reported segments						
	Securities	Asset management	Support	Total	Adjustments	Consolidated
Operating revenues:						
Revenues from third parties	\$ 503,298	\$ 99,396	\$ 8,830	\$ 611,524	\$ 27	611,551
Intersegment revenues	36,147	423	102,532	139,102	(139,102)	-
Total	\$ 539,445	\$ 99,819	\$ 111,362	\$ 750,626	\$ (139,075)	611,551
Segment income	\$ 6,721	\$ 8,541	\$ 8,794	\$ 24,056	\$ (7,478)	16,578
Segment assets	\$ 3,356,257	\$ 178,647	\$ 254,960	\$ 3,789,864	\$ 45,616	3,835,480
Segment liabilities	\$ 2,286,008	\$ 13,713	\$ 126,651	\$ 2,426,372	\$ (169,268)	2,257,104
Others:						
Depreciation	\$ 5,280	\$ 288	\$ 21,371	\$ 26,939	\$ 973	27,912
Interest and dividend income	18,002	-	-	18,002	(2,721)	15,281
Interest expense	11,434	-	-	11,434	(1,775)	9,659
Equity in gain of affiliates	460	-	-	460	-	460
Impairment loss	1,000	-	99	1,099	-	1,099
Investments in affiliates	46,193	-	-	46,193	-	46,193

Increase in property and equipment and intangible assets	4,541	108	23,218	27,867	369	28,236
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1. (1) Components of “Adjustments in segment income” are as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Elimination of intersegment transactions	¥ 2,621	¥ 2,858	\$ 23,615
Unallocated company-wide expenses	(3,451)	(3,733)	(31,093)
	¥ (830)	¥ (875)	\$ (7,478)

Company-wide expenses are holding company’s expenses.

- (2) Components of “Adjustments in segment assets” are as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Elimination of intersegment balances	¥ (36,543)	¥ (50,849)	\$ (329,246)
Unallocated company-wide assets	41,606	43,770	374,862
	¥ 5,063	¥ (7,079)	\$ 45,616

Company-wide assets are holding company’s assets.

- (3) Components of “Adjustments in segment liabilities” are as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Elimination of intersegment balances	¥ (35,039)	¥ (48,660)	\$ (315,695)
Unallocated company-wide liabilities	16,252	18,564	146,427
	¥ (18,787)	¥ (30,096)	\$ (169,268)

Company-wide liabilities are holding company’s liabilities.

2. Segment income is adjusted with operating income in the consolidated statement of income.

Related information

1. Information by products and services

Disclosures are omitted because the required information is given in the above segment information.

2. Geographical information

- (1) Operating revenues

Disclosures are omitted because operating revenues from customers in Japan are over 90% of operating revenues in the consolidated statement of income.

- (2) Property and equipment

Disclosures are omitted because property and equipment located in Japan are over 90% of property and equipment in the consolidated balance sheet.

3. Information by major customers

Disclosures are omitted because no particular third party whose operating revenues are over 10% of operating revenues in the consolidated statement of income exists.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2019 and 2018.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2019 and 2018.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2019 and 2018.

Independent Auditor's Report

To the Board of Directors of
Okasan Securities Group Inc.

We have audited the accompanying consolidated financial statements of Okasan Securities Group Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as of March 31, 2019, and the consolidated statement of income, comprehensive income (loss), changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Okasan Securities Group Inc. and its consolidated subsidiaries as of March 31, 2019, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

Crowe Toyo & Co.
Tokyo, Japan
June 28, 2019

Crowe Toyo & Co.

REFERENCE DATA

Okasan Securities Co., Ltd. Balance Sheet — March 31, 2019

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 20,543	¥ 13,009	\$ 185,089
Cash segregated as deposits for customers and others	32,379	27,779	291,729
Trading assets	92,709	111,120	835,292
Receivables arising from unsettled trades	8,870	10,220	79,917
Receivables on margin transactions	27,989	44,653	252,176
Receivables on collateralized securities transactions	62,641	87,549	564,384
Short-term guarantee deposits	3,184	2,064	28,687
Other current assets	3,980	2,902	35,859
Allowance for doubtful accounts	(11)	(6)	(99)
Total current assets	252,284	299,290	2,273,034
Property and equipment, net of accumulated depreciation	2,920	3,120	26,309
Intangible assets, net	447	282	4,027
Investments and other assets:			
Investment securities	761	663	6,856
Securities in associated companies	211	211	1,901
Long-term guarantee deposits	3,670	3,653	33,066
Deferred income taxes	1,793	2,162	16,155
Prepaid pension cost	888	647	8,001
Other	1,034	1,041	9,316
Allowance for doubtful accounts	(686)	(674)	(6,181)
Total investments and other assets	7,671	7,703	69,114
TOTAL	¥ 263,322	¥ 310,395	\$ 2,372,484

Okasan Securities Co., Ltd.
Balance Sheet—(Continued) — March 31, 2019

	Millions of yen		Thousands of U.S. dollar
	2019	2018	2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trading liabilities	¥ 64,542	¥ 62,983	\$ 581,512
Payables on margin transactions	11,097	10,061	99,982
Payables on collateralized securities transactions	-	19,332	-
Deposits received	28,511	24,717	256,879
Guarantee deposits received	6,647	7,670	59,888
Short-term borrowings	59,815	78,515	538,922
Income tax payables	12	643	108
Other current liabilities	4,041	7,811	36,409
Total current liabilities	174,665	211,732	1,573,700
Non-current liabilities:			
Long-term borrowings	700	4,000	6,307
Liability for retirement benefits	5,131	4,946	46,230
Other non-current liabilities	1,536	1,498	13,839
Total non-current liabilities	7,367	10,444	66,376
Financial instruments transactions reserve	837	847	7,541
Total liabilities	182,869	223,023	1,647,617
Net assets			
Shareholder's equity:			
Common stock			
Authorized—240,000 shares			
Issued—100,000 shares in 2019 and 2018	5,000	5,000	45,049
Capital surplus	29,200	29,200	263,087
Retained earnings	46,248	53,155	416,686
Total shareholder's equity	80,448	87,355	724,822
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	5	17	45
Total net assets	80,453	87,372	724,867
TOTAL	¥ 263,322	¥ 310,395	\$ 2,372,484

Okasan Securities Co., Ltd.
Statement of Income — Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollar
	2019	2018	2019
Operating revenues:			
Commissions	¥ 28,612	¥ 36,266	\$ 257,789
Net gain on trading	22,002	25,748	198,234
Interest and dividend income	1,189	1,230	10,713
	<u>51,803</u>	<u>63,244</u>	<u>466,736</u>
Interest expense	957	1,051	8,623
Net operating revenues	<u>50,846</u>	<u>62,193</u>	<u>458,113</u>
Selling, general and administrative expenses	<u>49,216</u>	<u>50,357</u>	<u>443,427</u>
Operating income	<u>1,630</u>	<u>11,836</u>	<u>14,686</u>
Other income (expenses):			
Reversal of (provision for) financial instruments transactions reserve	10	(46)	90
Other, net	189	338	1,703
	<u>199</u>	<u>292</u>	<u>1,793</u>
Income before income taxes	1,829	12,128	16,479
Income taxes:			
Current	362	3,652	3,261
Deferred	374	99	3,370
	<u>736</u>	<u>3,751</u>	<u>6,631</u>
Net income	<u>¥ 1,093</u>	<u>¥ 8,377</u>	<u>\$ 9,848</u>

CORPORATE DATA

(At August, 2019)

Company Name

OKASAN SECURITIES GROUP INC.

Date of Establishment

August 25, 1944

Head Office

1-17-6 Nihonbashi, Chuo-ku,
Tokyo 103-8268, Japan

Muromachi Head Office

2-2-1 Nihonbashi Muromachi, Chuo-ku,
Tokyo 103-0022, Japan

Phone Number

+81-3-3272-2222

Paid-in Capital

18,590 Million Yen

Subsidiaries

11 companies

Listed Stock Exchanges

Tokyo Stock Exchange
Nagoya Stock Exchange

BOARD OF DIRECTORS

(At August, 2019)

Vice Chairman

Tetsuo Kato

President

Hiroyuki Shinshiba

Director

Mitsuru Tanaka

Director

Hiroyuki Shindo

Director

Hiroyuki Murai

Audit & Supervisory Committee Members

Director

Nobuyuki Natsume

Outside Director

Seishi Higo

Outside Director

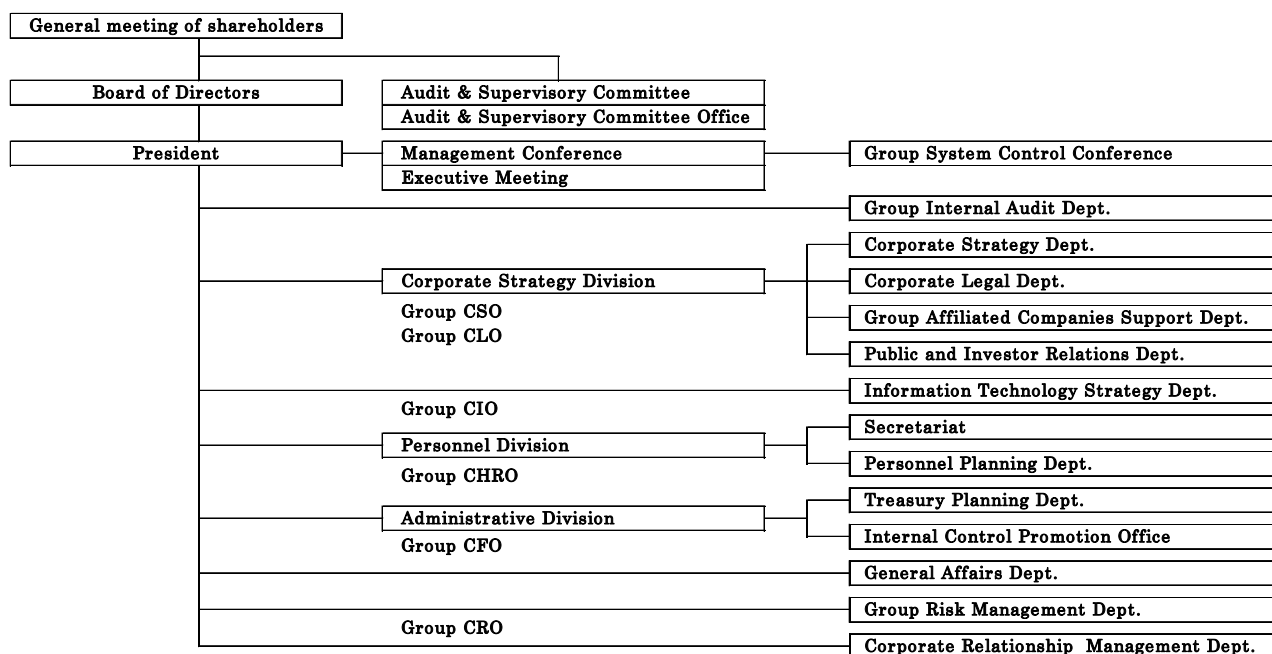
Hirokazu Kono

Outside Director

Mikito Nagai

ORGANIZATION CHART

(At August, 2019)



OKASAN SECURITIES GROUP INC.

<http://www.okasan.jp/>